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Western armies are good at destroying things. Can they be made better at building them too? leader

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Politics this week

Oct 25th 2007
From The Economist print edition

AP

Around a million people were evacuated when southern California suffered its worst series of **wildfires** in years. San Diego county bore the brunt of the devastation: losses there were estimated to exceed $1 billion. The emergency services and Governor Arnold Schwarzenegger were praised for their swift response to the conflagration. George Bush declared the area a “major disaster”. See article

Bobby Jindal won **Louisiana's** election for governor, polling 54% in the first round and thus avoiding a run-off. Mr Jindal is America's first Indian-American governor (his parents are immigrants from Delhi). The result is a boon for the Republicans, who haven't had much to cheer about of late. See article

The **Republican presidential candidates** held their most testy debate so far, arguing over who best represented conservative values. Earlier, evangelicals held a big meeting to assess the runners. Absent was Sam Brownback, a senator from Kansas, who withdrew from the race.

Concerns were raised about the handling of America's **nuclear weaponry** apparatus. Around 70 air force personnel, including four officers, were disciplined for an incident in August when six cruise missiles armed with nuclear warheads were mistakenly flown on the wing of a B-52 from North Dakota to Louisiana, a serious breach of safety protocols. And in a separate incident, a navy investigation revealed that sailors had failed to carry out safety checks on a submarine's nuclear reactor for a month, and had tried to cover it up.

Drugs money

The United States and **Mexico** announced that they had reached agreement on an anti-drugs aid package, worth $1.5 billion over three years, under which Mexico will receive aircraft, communications-equipment training and technical advice. See article

Two candidates in local elections due on October 28th in **Colombia** were shot dead. At least 21 candidates have been killed, most of them by FARC guerrillas. See article

About 20,000 students in **Venezuela** demonstrated against plans by Hugo Chávez, the left-wing president, to change the constitution to abolish term limits and give the government control over the central bank's reserves.

George Bush said he would maintain the United States' trade embargo against **Cuba** as long as the Castro brothers' communist regime kept a “monopoly” of power. He thus rejected calls earlier this year by Raúl Castro, Cuba's acting president, for dialogue. See article

Border offence

AFP

Tensions remained high on the border between **Turkey** and **Iraq** after rebels from the Kurdistan Workers' Party (PKK) launched another raid, killing 12 Turkish soldiers. Turkey retaliated by bombing rebel positions along the border.

In **Poland's** election, the Civic Platform party trounced the ruling Law and Justice party of the prime minister, Jaroslaw Kaczynski, who will now step down. Donald Tusk, Civic Platform's pro-European Union leader, began talking to other parties about forming a coalition. Mr Kaczynski's twin brother, Lech, remains president, but his power will be much diminished. See article

After a bitter campaign described by many as xenophobic and racist, the right-wing Swiss People's Party (SVP) strengthened its parliamentary presence after taking 29% of the vote in **Switzerland's** election. See article

The EU's leaders agreed to a new **treaty** in Lisbon to replace the botched European constitution, which was rejected by voters in France and the Netherlands in 2005. The treaty must be ratified by all 27 member states to come into force. One of its hardest sells will be in Britain, where Gordon Brown, the prime minister, insists that the document differs substantially from the defunct constitution and therefore does not require a referendum. See article

Who's the main man?

Ali Larijani, **Iran's** chief nuclear negotiator for the past two years, resigned, prompting speculation about discord between Iran's supreme leader, Ali Khamenei, to whom Mr Larijani had been close, and its president, Mahmoud Ahmadinejad. See article

A plethora of rebel groups from **Darfur**, the ravaged western region of Sudan, were due to go to Libya for peace talks with the Sudanese government. But several groups are boycotting the talks, reducing the chances of success of a 26,000-strong peacekeeping force, put together jointly by the United Nations and the African Union, which is scheduled to arrive in Darfur before the end of the year. See article

South Africa won the rugby world cup in Paris. The victory may, for the moment, stave off political pressure on the South African team to become more multi-racial. Only two non-whites were in the team. See article

The Ogaden National Liberation Front, which says it wants self-determination for Somalis in the Ogaden region of eastern **Ethiopia**, said it had killed up to 250 government soldiers in a single battle.

Not-so-familiar faces

AFP

At the end of its five-yearly congress, **China's** Communist Party unveiled its new leadership team. Hu Jintao remains party leader, but is expected to retire in 2012. Best placed to succeed him are Xi Jinping, the party chief in Shanghai, and Li Keqiang, his counterpart in Liaoning Province.

With what may not have been coincidental timing, the climax of the congress was followed by China's successful first launch of a **lunar orbiter**. See article

After **Pakistan's** most deadly suicide-bombing, which killed 140 people in a procession in Karachi celebrating Benazir Bhutto's return from eight years in exile on October 18th, Ms Bhutto declared that she would not be deterred from contesting elections expected in January. See article

In **Kyrgyzstan**, a referendum gave 75% support to constitutional reforms proposed by Kurmanbek Bakiev, the president. In response, Mr Bakiev called an election for December 16th. But observers from Europe and America said the referendum was plagued with violations. The reforms, presented as giving more power to parliament, are seen by critics as tactics to shore up the president's power.

The Liberation Tigers of Tamil Eelam attacked a **Sri Lankan** air base, destroying eight aircraft and killing 14 people.

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Business this week

Oct 25th 2007
From The Economist print edition

Merrill Lynch said it would take $8.4 billion in write-downs stemming from collateralised-debt obligations, other subprime-related assets and leveraged loans, which is much larger than the $5 billion it forecast on October 5th. The investment bank also reported its first quarterly net loss from continuing operations in six years, of $2.3 billion.

Industrial and Commercial Bank of China agreed to take a 20% stake in **Standard Bank**, based in Johannesburg and Africa's biggest lender by assets, for $5.5 billion. Chinese firms are investing heavily in Africa; the deal represents the biggest-ever foreign acquisition by a Chinese company.

Bear Stearns, an investment firm, and **Citic Securities**, China's biggest brokerage, agreed to form a joint alliance in Asia, ending weeks of speculation about a deal. See article

A week after **Bank of America** posted a sharp drop in profit and Kenneth Lewis, its boss, said he had had "all the fun I can stand" in investment banking, America's second-largest bank sounded a partial retreat from Wall Street: 3,000 staff will go, mainly from the investment-banking division.

Microsoft ended its lengthy tussle with the European Commission when it said it would not contest September's landmark court judgment that upheld the commission's 2004 antitrust ruling against it. Instead, the company agreed to comply with the ruling and to license technical information, making the integration of its software with rival systems easier.

SuperSIV me

The viability of a fund being set up to buy highly rated assets from **structured investment vehicles** was much discussed. SIVs borrow short- term to buy high-yielding securities, many of which are mortgage-backed instruments. As the asset-backed commercial-paper market has dried up, they have had a hard time raising money. A fund worth up to $100 billion and managed by Citigroup, Bank of America and JPMorgan Chase has been proposed, but other banks seem reluctant to join. Citigroup has been keen to point out (most notably in a fact sheet released on October 19th) that the SIVs it manages are in decent shape.

The world's largest passenger jet entered commercial service. Singapore Airlines flew the **Airbus** A380 to Sydney little more than a week after taking delivery of the aircraft.

Investors in **Cablevision Systems** rejected a $10.6 billion buy-out from the Dolan family, which founded the company and holds around 20% of the shares. The proposal had been accepted by the board in May. Cablevision serves New York with cable-TV and owns the New York Knicks basketball team.

Removing a road block

The European Court of Justice overturned a 47-year-old regulation in Germany that protects **Volkswagen** from takeovers. The decision was hailed as a victory by those wanting to dismantle protectionist barriers in Europe. The "Volkswagen law", which limits the voting rights of any one investor to 20%, was designed to protect the interests of Lower Saxony, Volkswagen's second-biggest shareholder and the site of its main factory. **Porsche**, VW's largest shareholder, will now likely pursue a takeover.

Apple reported a 67% increase in quarterly net income, compared with a year ago. Profit was boosted by a surge in sales of Macintosh PCs and by the launch of the iPhone.

Another winner from the launch of the iPhone was AT&T, which is the exclusive carrier for the device in the United States. Its quarterly net-profit rose by 42% compared with the same period last year. Around 40% of iPhone subscribers were new customers to AT&T.

Nike agreed to buy **Umbro** for £285m ($580m), adding the British sportswear firm to its range of brands, which includes Converse. The deal extends Nike's foothold in the market for soccer attire, where Umbro competes with Adidas and Puma in supplying kit to national and domestic teams.

Countrywide Financial, America's biggest private mortgage-lender, announced a $16 billion “home preservation programme”. Banks and other financial institutions have come under pressure to do more to help struggling homeowners. Countrywide will contact up to 82,000 holders of adjustable-rate mortgages whose payments are due to be reset by the end of 2008 and offer to either refinance or “modify” their loans.

In the dumps

Sales of **existing homes** in America slumped by 8% in September, compared with August, to just over 5m at an annual rate. Compared with September 2006, sales were down by more than 19%. The figures were much worse than had been expected.

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KAL's cartoon

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Illustration by Kevin Kallaugher

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Armies of the future

Brains, not bullets

Oct 25th 2007
From The Economist print edition

Western armies are good at destroying things. Can they be made better at building them?

Eyevine

ANOTHER debate to do with Iraq and Afghanistan is building in America, one that could have important consequences for the West. This debate is being conducted in the Pentagon—and it has to do with the future shape of America's armed forces. With its far-flung alliances and commitments, the superpower rightly wants a “full spectrum” of military capabilities to deal with everything from an all-out war to a small policing action. But precisely what the mix should be is increasingly contentious—and could prove expensive.

If the biggest threat comes from rising powers, such as a belligerent Russia or a pushy China, America and its allies will need to invest in aircraft, ships and advanced weapons to cope. If the greatest challenge is the fight against militants and insurgents around the world—seen by some as a new and different “fourth generation” of warfare (see article)—then they will need more boots on the ground and, crucially, different sorts of soldiers wearing them. Sadly for taxpayers everywhere, the emerging answer from America is that a modern power needs to prepare for both challenges. But there has been a clear swing towards manpower from technology.

The troops, they are a changin'

The change has been striking. The “transformation” advocated by Donald Rumsfeld, George Bush's first defence secretary, envisaged that the armed forces would be slimmed down and money invested in “smart” weapons, reconnaissance systems and data links. Speed, stealth, accuracy and networks would substitute for massed forces. The army's idea of its “future warrior” was a kind of cyborg, helmet stuffed with electronic wizardry and a computer display on his visor, all wirelessly linked to sensors, weapons and comrades. New clothing would have in-built heating and cooling. Information on the soldier's physical condition would be beamed to medics, and an artificial “exoskeleton” (a sort of personal brace) would strengthen his limbs.

The initial success in toppling first the Taliban in Afghanistan and then Saddam Hussein in Iraq seemed to vindicate such concepts. But the murderous chaos in Iraq, and the growing violence in southern Afghanistan, have shown that America is good at destroying targets, and bad at rebuilding states. Firepower is of little use, and often counter-productive, when the enemy deliberately mingles among civilians.

Robert Gates, Mr Rumsfeld's successor, is thus presiding over something of a counter-revolution.

Technological tricks are not being abandoned. But the army is to get a bigger share of the defence budget and has been told to recruit more soldiers with it. Precisely because America is so powerful against conventional armies, Mr Gates expects its enemies to rely on asymmetric warfare. In other words, America must expect to fight protracted, enervating counter-insurgency wars that offer no clear-cut victories and risk the prospect of humiliation.

A new manual on counter-insurgency co-authored by the man now in charge of the war in Iraq, General David Petraeus, overturns the notion that America doesn't "do nation-building". Counter-insurgency, it says, is "armed social work". It requires more brain than brawn, more patience than aggression. The model soldier should be less science-fiction Terminator and more intellectual for "the graduate level of war", preferably a linguist, with a sense of history and anthropology.

The indirect approach

In general, the shift from technology to manpower is welcome. Some sceptics will argue that America's first future priority should be to avoid smallish wars of choice altogether. Even if that were sensible, history suggests it is unlikely to happen: American troops have kept on getting involved in foreign conflicts. The military planners' job is to cope with the likely, not to restrict democratically elected politicians' options.

From that perspective, two doubts come to the fore. The first is whether the Pentagon is right to focus so heavily on creating more combat brigades. With American units serving 15 months in the field and a year at home at best, the army understandably wants more front-line soldiers to ease the strain. But large armies have often found it extremely hard to fight guerrillas in far-away places—ask the French in Algeria, the Russians in Afghanistan and, not least, the Americans themselves in Vietnam. With the possible exception of the British in Malaya, it is hard to think of many insurgencies in modern times that have been crushed by a Western occupying power.

Post-colonial politics, stronger concerns for human rights, the rapid dispersal of news: all these (good) things make today's conflicts even harder to win for occupiers. So it may well be better to step back and work through local allies. Few insurgencies have unseated existing governments. In the "war on terror" most of the important al-Qaeda suspects have been rounded up for America by local allies. Strengthening local forces is the best way of salvaging Iraq and Afghanistan, and may help avoid the need for future interventions.

To be fair, the Pentagon talks about building "partner capacity", but it may need more radical steps—in particular creating new specialist units to train allies, embed Western soldiers in local forces to improve their performance and be able to call in airstrikes, and help organise civil reconstruction. Generals complain about splitting the army, but they already oversee a myriad of specialist units. It is at least worth trying.

The other lingering concern with the shift in focus from destruction to construction has to do with skimping on conventional weaponry. At the margin, it is certainly worth putting more money into manpower at the expense of some futuristic projects. The prospect of an all-out war with Russia or China is distant for now; the risk of losing in Iraq and Afghanistan is acute. But raiding other defence programmes can only go so far. At 4% of GDP, America's defence spending is low by historical standards: it was 9% during the Vietnam war and 14% during the Korean war. The problem is worse in Europe: many of America's allies spend less than the 2% minimum target set by NATO. If the West wants to build a smarter army of the future, it will have to pay for it.

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The European Treaty

Give Europe a say

Oct 25th 2007
From The Economist print edition

Sneaking a constitution through on the sly is a bad idea for all Europeans

John Berkley

SURREALISM works well in art, not in politics. When René Magritte wrote "*Ceci n'est pas une pipe*" under a picture of a pipe, it was funny. On October 18th the leaders of the European Union took the constitution that voters in France and the Netherlands had rejected in 2005, changed the odd phrase, muddled the odd concept and presented the Lisbon "reform treaty" to the world, boldly declaring "*Ceci n'est pas une constitution*"—so there is no need for it to be put to any difficult referendums. Still more surreal has been the reaction: nobody other than a few British Eurosceptics really seems to care. Continental voters who once howled about the treaty have shrugged their shoulders; after barely a week many of the conjurors in Brussels have already given up the subterfuge, reassuring everybody that it is a constitution, after all.

Whatever your views on the treaty, this is a farce—and it has consequences stretching far beyond Europe. This, after all, is the world's biggest economy; in ten years' time the mishmash agreed upon in Lisbon could have a huge impact on how the EU acts (see article). At the very least, it marks an important opportunity missed. According to the Laeken declaration of 2001, this process was supposed to simplify the EU's legal architecture, hand some powers back to member states and make the project intelligible to the voters. It has ended up doing the opposite—and its obfuscation will come back to hurt the EU in the long term, especially in Britain.

Sludge, pure and simple

The new treaty's opacity is not an accident: it is its raison d'être. Having failed to persuade voters with grand phrasing and unusual candour (the original constitution declared that EU laws had "primacy" over those of mere nations), European leaders reverted to their previous strategy: cramming a long list of innovations and amendments into an unreadable legal text. The aim was to craft something that could be presented as just another EU treaty, amending previous ones. That in turn allows government leaders to say it is suitable for swift ratification by national parliaments (a deadline of early 2009 has been set), without the need for pesky referendums. So far only Ireland is to hold a national vote on the Lisbon treaty.

Regardless of the treaty's merits, this has to be wrong. As Bertie Ahern, the Irish prime minister, has been honest enough to admit, 90% of the constitution is still in the treaty. Some countries, notably Germany, have always been allergic to referendums for good historic reasons. However, almost a dozen EU governments promised them on the original constitution; they are being dishonest when they claim the new one is so different that those promises are moot. The only reason why there will be no

referendums outside Ireland is that they are likely to be lost—in the Netherlands, Britain and perhaps other places. For an institution desperately short of legitimacy and accountability, that is exactly the wrong excuse.

Two somewhat contradictory arguments are advanced to justify the democratic deceit. The first is that, under all that waffle, the Lisbon treaty itself is actually a significant step forward for the union—essential, in fact, for an enlarged body of nations. Without it, the EU will grind to a halt. The other argument is that the treaty does not matter much, and pushing it through on the sly will allow the union to move on to more important things. Neither really stands up, though Britons should note that in their particular case the second argument may have more truth than the first.

It may be a long way from the dream at Laeken, but the new treaty is clearly not the monster that many Eurosceptics describe (see article). It does not create a superstate, and it contains some useful improvements. It scraps the current system that sees EU nations take six-month turns at chairing all meetings (Slovenia is next in line), instead allowing national leaders to elect one of their own to preside over EU summits for a period of up to five years. It merges two competing posts to create a single foreign-policy chief. It sets up a voting system that is simpler than the unfair formula established in the Nice treaty of 2001, and slims down the European Commission.

Reducing the rejected constitution to a simple package of internal reforms would have been a fine response to the voters' rebuffs in France and the Netherlands. But it is hard to claim the union is in chaos without these improvements (revealingly, the proposed voting changes will not take full effect until 2017). And the treaty still includes the worst part of the constitution—a sweeping list of misguided good intentions and alleged social rights, the Charter of Fundamental Rights, which is an open invitation for EU judges to meddle. Even if other treaties have transferred more sovereign power to the centre (the acid test when it comes to referendums), this one still does a bit of that. Scrapping national vetoes in at least 50 areas of decision-making may make sense, and matter less than Eurosceptics claim, but it plainly hands more power to Brussels; that is what politicians need to justify, not spin away.

The British problem

In 2003 this newspaper suggested putting the draft constitution in the bin and starting again (see article). Given that the Lisbon treaty is merely a remuddled version, our advice remains unchanged. The need to have a new treaty is not so great that it justifies having a poor one. If the Lisbon treaty is not as dangerous as the Eurosceptics make out, the corollary is it would not matter very much if it failed.

Ironically, the country that the treaty affects least is Britain. The opt-outs secured by Britain, though untested, do indeed make the treaty less intrusive. If ratified, the treaty would let the union turn to bigger matters such as enlargement, economic reform and working out what to do about Russia—all causes Britain has championed. However, the British government promised a referendum—and yes, despite Gordon Brown's denials, it is basically the same constitution. The real danger is of Britain sleepwalking towards the exit—either by rejecting the treaty after every other country has accepted it; or not having a vote and watching the resentment feed into a movement to get out of the EU. Better to have a vote now.

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Poland

Sighs and relief

Oct 25th 2007
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Poland's new government has plenty to do. Not repeating the mistakes of the past would be a start

Reuters

Get article background

FOR the past two years, outsiders have watched with a mixture of unease and derision as the most important country in eastern Europe has seemed to drift off into a world of its own. Poland's voters have now mercifully dragged it back. With the thumping defeat of Jaroslaw Kaczynski's Law and Justice party, and the victory of Donald Tusk's Civic Platform, Poles can put behind them a period of mistakes and missed opportunities. And not only Poles are celebrating.

Under the eccentric rule of Mr Kaczynski as prime minister and his twin brother, Lech, as president, Poland seemed to confirm the fears of those who said that enlarging the European Union to the east was a mistake. In the name of fighting corruption at home, the Polish authorities corroded independent institutions, undermined the rule of law and misused the intelligence services. Abroad, the Kaczynskis repeatedly misplayed their hand, making their country, once a respected ally, a laughing stock and a nuisance. They picked unnecessary fights with Germany, sourly cited past historical wrongs (Poland has, sadly, suffered many) in their bid for bigger voting weights within the EU, and put backs up all round.

It was principally younger Poles, turning out in unprecedented numbers, who handed Law and Justice its election drubbing (see article). That is a welcome counter to fears that apathy, cynicism and emigration make it too easy for heavy-handed governments in ex-communist countries to hang on to power. Voters' patience is exhaustible.

Civic Platform inherits a booming economy, with GDP growth forecast at 6.5% by year's end. That provides a good basis for reforming the public finances and simplifying the tax system, which Law and Justice largely failed to do. The country's lamentable transport system and antique public administration offer plenty of scope for modernising zeal. A good measure of success will be if some of the hundreds of thousands of Poles now working in western Europe start to trickle home. Abroad, simple adherence to the elements of diplomacy—turning up for meetings, answering letters, negotiating calmly—will gladden Poland's friends and neighbours.

Moving on

Civic Platform will find it easy to be more competent than its predecessor, but it should not be less

principled. The Kaczynskis were clumsy in their corruption-hunting, but their quarry was real. It would be a pity if Poland now returned to the sleaze that marred public life before 2005. The criminal-justice system needs to be depoliticised, not castrated. Meanwhile, the new government should avoid seeming vengeful. Law and Justice packed the senior reaches of officialdom with party placemen; Civic Platform should not. Nor should Poland's new leaders purge competent people in top jobs solely because they were appointed by the old government.

As for foreign policy, Civic Platform could start by mending ties with Germany. Poles may reasonably feel twitchy about close German-Russian co-operation, especially in energy. But regarding Berlin and Moscow with equal suspicion is no help. Germans are themselves worrying about Russia's direction under Vladimir Putin, and about its influence on their country. The Kaczynskis' venomous anti-German stance damaged Poland and weakened the EU. The more constructive Poland is in the EU, the easier it will be for Germany's Russia-sceptic chancellor, Angela Merkel, to take risks on Poland's behalf.

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World economy

More trick than treat

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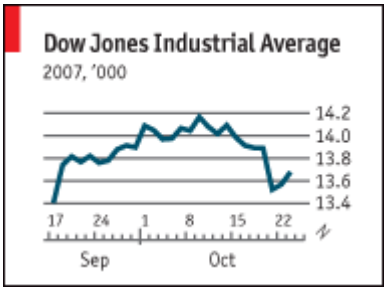
From The Economist print edition

Financial markets are jumpy. With good reason



HALLOWEEN arrived early for investors this year. Gone is the euphoria of late September and early October, when stockmarkets surged to new records, shrugging off the credit crunch and the spectre of a slowing American economy. Today's mood is jittery, with investors easily spooked by credit-market phantoms and the shadows of weak corporate profits. October 19th, the 20th anniversary of the 1987 crash, was a particularly grim day, with the Dow Jones Industrial Average falling almost 370 points. This week markets shuddered again as Merrill Lynch, an investment bank, reported its first loss in six years thanks to a large write-down on assets related to low-quality subprime mortgages in America.

In fact, the surprise is less the markets' nervousness now than their earlier confidence. That optimism was based on two shaky-looking assumptions: first, that economic damage from the summer's turmoil was either limited or would be mitigated by further interest-rate cuts from the Fed; and, second, that weakness in America's economy would, in any case, be countered by strength in the rest of the world.

Ghost-busters

The credit markets, particularly the most dysfunctional asset-backed parts of them, are still something of a battlefield (see article). The corpses from the summer's turmoil—the “conduits” and “structured investment vehicles” (SIV) which gathered up mortgage-related assets—have yet to be disposed of. That grim process is beginning, and with it the discovery of what subprime-related assets are actually worth. But dismembering SIVs will take time. And, in a cruel irony, American policymakers' cack-handed efforts to ease the pain, by giving an official stamp of approval to the idea of a super-SIV, have only added to investors' worries. If America's Treasury is involved, the logic goes, the SIV mess must be worse than it looks. Not surprisingly, investors feel risk-averse again. The spread between high-yield bonds and safe Treasury bonds, for instance, is now close to its peak in early September.

Even as investors are reminded that the credit crunch is not yet history, the news on America's economy is mixed. Thanks largely to booming exports, growth in the third quarter will turn out to have been quite robust. At the same time, the news from the housing market gets ever gloomier. Even though fewer houses are being built, the glut of unsold homes is growing. Tighter credit conditions are sapping already feeble demand. Existing home sales fell 8% in September, according to new figures. With the housing bust accelerating, the jobless rate inching up and oil prices close to record levels, the outlook for consumer spending is gloomy.

And the gloom cannot be magicked away by America's central bankers, as euphoric investors seemed to think back in September. The next meeting of the Federal Reserve's rate-setting committee falls on Halloween, and judging by the price of Fed futures, financial markets expect a treat. As of October 24th, a cut in the federal funds rate was regarded as a certainty. But even if the markets are proved right and the central bankers do bring down the rate by another notch, the immediate economic impact will be modest. The effect of lower interest rates takes months to work through an economy—especially when the housing market is in such a slump. And the risk of inflation could anyway stop the Fed from making aggressive interest-rate cuts.

Much depends on what happens outside America. For the past year or so, slower growth in America has been more than offset by strength elsewhere. Since America's biggest firms make around half their profits abroad, this strength has helped underpin share prices. But Japan and the euro zone—the most important players, measured at market exchange rates—are looking wobblier. The IMF, which just

chopped its growth forecast for the American economy next year by nine-tenths of a percentage point to 1.9%, has also downgraded its figure for Japan (by three-tenths of a point) and the euro zone (by two-fifths of a point). Optimists put their faith in the booming emerging markets—China, India and the like. China, in particular, could counter American weakness by shifting more towards domestic consumption. But that outcome is not certain. Which is another reason why the markets' jitters will last long after the pumpkins have gone.

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South Africa

Pick only the best

Oct 25th 2007
From The Economist print edition

Pump cash into sport for poor blacks, but don't consider racial quotas for the top teams

AFP

Get article background

THE much-deserved victory of South Africa's Springboks over the English *rosbifs* in the rugby World Cup in France has been joyously greeted at all points of the country's racial rainbow. But success has been tempered by the awkward reality that blacks, who account for 80% of South Africa's population, played no part on the pitch; and there were just a couple of mixed-race players (Coloureds, in South Africa's argot), including the tournament's star try-scorer, Bryan Habana.

Inevitably, the old argument about ensuring that national teams reflect the make-up of South Africa's people has reignited. True, immediately after the victory, the country's president, Thabo Mbeki, went out of his way to hail the event as a victory for all South Africans. But some of his lieutenants in the past have demanded that the country's top teams field more blacks (see article). There are quotas in provincial cricket. And Jake White, the rugby team's appropriately named coach, is reportedly fed up with political interference.

If ever there were a case for racial quotas in sport, South African rugby would seem to be it. It is not just a matter of obvious under-representation; during apartheid, rugby was a totem of white Afrikaner nationalism. Even if you regard advancing anybody on the basis of the colour of his skin as deeply illiberal, there are pragmatic cases for brief periods of positive discrimination to jump-start any group that has been racially oppressed for generations and has been unable to achieve its potential. Besides, a Springbok team that extracted the whole country's talent would be even better.

The problem comes in the balance between a worthy aim (a more diverse team) and an ignoble means (discriminating on the basis of race). South Africa shows both the good and bad side of affirmative action. For instance, the amount of money spent on black education was so paltry, compared with what white schools were allocated, that a post-apartheid government was rightly bound to insist that a lot more blacks should be inducted into universities, even if there were a drop (temporary, with luck) in entry standards. More debatable has been the government's policy of “black economic empowerment”, which aims to shift more of the ownership and leadership of business into black hands. Detractors say this has tended to create a super-rich black elite with good connections to the ruling party, while making investors nervous.

A spring in their step

But once a big affirmative shove towards greater fairness has been engineered, it is dangerous to perpetuate a system of quotas, racial or otherwise, because it always risks undermining the principle of individual merit. This goes for sport too. Imposing racial quotas at the top would have the opposite effect to the one intended. It would mock the principle of merit and could well worsen race relations. Far better for the government to concentrate on investment, training and talent-spotting in poor black schools than to make people suspect that Mr Habana was chosen to fill a racial quota—which, as things stand, was emphatically not the case.

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On Che Guevara, internet bidding, Clarence Thomas, newspapers, Myanmar, Gordon Brown, Washington, DC

Oct 25th 2007
From The Economist print edition

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Long live Che?

SIR – I too decry the appropriation of Che Guevara's legacy by the fashionable left ("A modern saint and sinner", October 13th). But the 40th anniversary of his death has been marked by just as much historical inaccuracy at the other end of the political spectrum. Guevara did not stand for a "new tyranny". He helped overthrow the ruthless police-state dictatorship of Fulgencio Batista in Cuba and the country's new regime was a vast improvement by comparison.

And yes, Guevara "shot those suspected of treachery". So did the military forces of most countries engaged in war during the 20th century. Guevara also oversaw the execution of numerous figures from the Batista regime, which was brutal yet hardly exceptional.

One can readily disagree with Guevara's politics: Cuba today stands as a testament to the failures of socialism in practice. However, seeking to typecast him as a bloodthirsty Marxist villain of the Stalinist-Maoist mould is just as facile as the efforts of today's left to enlist him as the standard-bearer for the anti-globalisation movement.

Dave Sharma
Washington, DC

SIR – Guevara has become nothing more than an emblem for the modern populism and socialism that only widespread poverty can spawn. But the symbol of brazen rebellion that Guevara represents to the troupe of adolescents who naively don his countenance pales in comparison to the notion that he imbued in millions of poor—that poverty can be alleviated through solidarity. Guevara's legacy remains powerful not because of the preponderance of hackneyed politics he left behind, but because of an enduring and innately human ideal whose virtue should not be discarded with the rising yet promising tides of capitalism and democracy.

John Helwig
Bethesda, Maryland

Sniping

SIR – So Meg Whitman, eBay's boss, thinks that "in the internet industry one bids early, boldly and pre-emptively high" (Face value, October 6th). No wonder eBay ended up making a bad bet when it bought Skype. Ms Whitman should know that the winning strategy for bidding over the internet is to lay back, follow the early offers, then jump in with the highest bid at the last minute before the auction closes. Discretion remains the better part of valour, not least in the case of Skype.

James Heimer
Houston

Judicial review

SIR – When reviewing the autobiography of Clarence Thomas, a Supreme Court justice, Lexington mentions that conservatives often rail against "judges who conjure up rights not mentioned in the constitution", most specifically abortion rights (October 6th). This so-called "strict constructionist" view seems to be applied by judges only when the constitution does not chime with their philosophical

prejudices. The constitution also does not contain rights on marriage or children, labour standards, driving a car and thousands of other rights that make up almost the entirety of a person's life in the United States. Lexington does not acknowledge the influence of Mr Thomas's own prejudices on his rulings from the bench, especially when a case involves a clash of conservative and liberal ideals.

Charles Waltemath
Portland, Oregon

Classified information

SIR – You imply that readers of newspapers do not "accept and value" ads in newspapers or "consider them part of the product", as do readers of magazines ("Out of vogue", September 29th). There is overwhelming evidence that this is not the case. Scarborough Research, which tracks shopping habits, found that 53% of consumers use newspapers to help them make buying decisions. Only 4% prefer magazines for this purpose. Data from MORI suggests that 90% of consumers would not take advertising out of newspapers if given a choice. Almost two-thirds of newspaper readers normally read or glance at ads while they thumb through the medium's print product.

In an opt-out world where consumers are increasingly empowered to avoid advertising, newspapers are truly the opt-in media.

John Kimball
Senior vice-president
Newspaper Association of America
Arlington, Virginia

Freedom through trade

SIR – If the majority of Burmese truly supported democracy, Myanmar would become a democratic state ("A chink in the armour", October 13th). No foreign country is imposing an authoritarian government on Myanmar. The military junta is able to stay in power because a significant percentage of the Burmese actually support the thugs. For that same reason authoritarian governments continue to rule China and Vietnam. Yet both of those countries also enjoy the invigorating effect of free trade with the West. Such trade has improved the economic lot of millions of Chinese and Vietnamese and, more importantly, has opened their societies to Western values. Both are far freer than when the West isolated them.

Sadly, the lessons of free trade have been lost on overzealous but sincere idealists like Aung San Suu Kyi. Heeding their misguided call, the West has strangled Myanmar with an economic embargo, the only accomplishment of which has been to impoverish the Burmese economically and intellectually.

Dwight Sunada
Stanford, California

Political misfortunes

SIR – It seems to be received wisdom among the media that Gordon Brown is "one of the canniest operators in British politics" ("The emperor's new clothes", October 13th). But where is the evidence? Mr Brown was outmanoeuvred for the Labour Party leadership by both John Smith and Tony Blair in the early 1990s and for years was unable to unseat Mr Blair as prime minister. In the past few weeks Mr Brown has made a string of completely unforced blunderings that have transformed the fortunes of the waning Conservative Party. He cornered himself over an election that wasn't, played politics with the troops through spin and photo ops, stole Tory tax policies that are unpopular with traditional Labourites and is now causing ire among both businesspeople and unions. More cack-handed than canny operator I would say.

Mark Kingsley-Williams
London

The best and the brightest

SIR – I must admit that I was surprised to read that Washington, DC, "sucks in a giant share of the country's best brains" ("Capital of culture", October 6th). I was under the impression that America's best

brains could be found in Silicon Valley, or near Boston's biotech hub, or perhaps—a quaint idea, I know—in the science and engineering departments of the country's best universities. Silly me: I see now that I am mistaken. The best brains must reside within the Beltway. How else could anyone explain the intelligent political discourse we have in America today?

Paolo Bellomo
New York

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Irregular warfare

After smart weapons, smart soldiers

Oct 25th 2007
From The Economist print edition

Irregular warfare may keep Western armies busy for decades. They will have to adapt if they are to overcome the odds that history suggests they are up against

TopFoto

REBELLION is as old as authority itself, and so therefore is the business of putting it down. Nearly 2,000 years ago Jewish militants—known as Zealots, hence the English word—took up arms against the world's greatest power and terrorised those deemed collaborators. The Romans dealt with the revolt in Palestine in familiar fashion, laying waste any town that resisted, prompting many to commit suicide rather than suffer capture and, in 70AD, destroying the great Temple in Jerusalem and taking its treasures. “While the holy house was on fire,” records Josephus, “everything was plundered that came to hand, and ten thousand of those that were caught were slain...children and old men, and profane persons and priests, were all slain in the same manner.”

Modern Western armies cannot, as the Romans did, make a wasteland and call it peace. Modern wars are complex affairs conducted “among the people” and, as Sir Richard Dannatt, head of the British army, put it recently, “in the spotlight of the media and the shadow of international lawyers”. In Iraq in the 1920s, Britain's air force pioneered the use of “air policing” to put down rebellious tribesmen on the cheap; today the use of air power often carries big political costs. The greater the accuracy of modern weapons, the louder the outcry when they nonetheless kill or wound civilians. And the wider the reach of the internet, the bigger the impact of propaganda videos showing insurgent attacks against Western forces, regardless of civilian casualties. The British who fought the Mahdist religious rebels in Sudan in the 19th century had no need to worry about provoking attacks in London; today such a campaign would be seen as another front in the *jihad* against the West.

Such bewildering conflict is regarded by some military thinkers as the “fourth generation” of warfare, distinct from those of previous eras: the first generation, of line and column, which culminated with the Napoleonic wars; the second, of machinegun and artillery, which brought about the slaughter of the first world war; and the third, of manoeuvre with tanks and aircraft, which stretched from the second world war to the 2003 invasion of Iraq. Fourth-generation warfare, according to Thomas Hammes, a retired colonel in the American marines, involves loose networks, made more powerful and resilient by information technology. It does not seek to defeat the enemy's forces, but instead “directly attacks the minds of the enemy decision-makers to destroy the enemy's political will”.

Many others, though, regard today's conflicts as variations on age-old irregular warfare, not least Mao Zedong's “protracted war” in China, the Spanish *guerrilla* attacks against Napoleon's forces in Spain, or

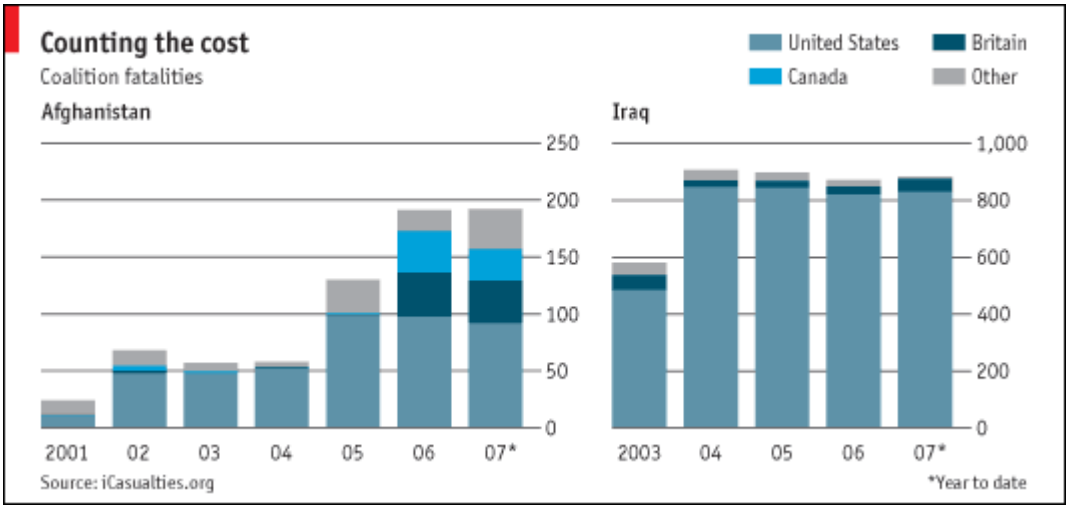
even America's war of independence from Britain. Whatever the definition, “small wars” can have big effects. In the past six decades the British have been driven out of Palestine, the French from Algeria, the Americans (and French) from Vietnam, the Russians from Afghanistan and the Israelis from Lebanon.

Can America and its Western allies avoid similar humiliation in Iraq and Afghanistan? Martin van Creveld, an Israeli military historian, argues that insurgencies have been almost impossible to defeat ever since Nazi Germany failed to suppress Josip Broz Tito's partisans in Yugoslavia. Winning such wars requires one of two tactics: extreme restraint and patience, as shown by the British over nearly 38 years in Northern Ireland; or extreme brutality, as shown by Syria in 1982 when the army destroyed much of Hama, a stronghold of Islamist rebels, killing at least 10,000 people. Any other method, says Mr van Creveld, risks being too harsh to win the support of the population but not harsh enough to cow it into submission.

This rule is too stark. Experts point to successes such as the end of the insurgency in El Salvador, the collapse of the Shining Path rebels in Peru, the end of the civil wars in Mozambique and Angola, the demise of the Red Brigades in Italy and of the Red Army Faction in Germany. Much of this debate revolves around the meaning of victory and defeat, as well as the definition of counter-insurgency, civil war, counter-terrorism and so on. One school of thought holds that America's forces had largely defeated the Vietcong in Vietnam when its politicians lost the will to stop North Vietnam's conventional army from overrunning the south. That is to miss the point: in counter-insurgency one side can win every battle, yet lose the war.

Lessons unlearnt

Such arguments are a hot topic at Western military colleges, especially in America. More has been written on counter-insurgency in the past four years than in the previous four decades. The study of small wars was largely abandoned by the United States army in the 1970s as commanders promised “no more Vietnams” and concentrated instead on how to defeat the massed Soviet armies. America's humiliating retreats from Lebanon in 1983 and Somalia in 1994 convinced many Americans that, as Colin Powell, a former general (and later secretary of state), once put it, America should not get involved in “half-hearted warfare for half-baked reasons”. The swift ejection of Iraq's forces from Kuwait in 1991 reinforced such beliefs. Counter-insurgency became a secondary task undertaken mainly by American special forces, which sometimes offered training to friendly governments.



Given the difficulties in Iraq and Afghanistan, American officers are relearning the history of their own interventions in Latin America and, more important, the lessons of British imperial policing. Why, American experts asked, did Britain succeed against communist revolutionaries in Malaya in the 1950s, whereas America failed to defeat the communists in Vietnam in the 1960s and 1970s?

In his 2002 book “Learning to Eat Soup with a Knife” (a title drawn from T.E. Lawrence's “Seven Pillars of Wisdom”, describing the messiness of waging “war upon rebellion”), John Nagl, an American lieutenant-colonel, concluded that British soldiers were better than the Americans at learning from their mistakes. General Sir Gerald Templer, the British high commissioner in Malaya, argued that “the shooting side of the business” was only a minor part of the campaign. Coining a phrase, he suggested that the solution “lies not in pouring more troops into the jungle, but in the hearts and minds of the people”. In contrast,

says Colonel Nagl, the Americans in Vietnam remained wedded to “unrestrained and uncontrolled firepower”, despite some work with small units that were deployed in border villages and civil-military reconstruction projects.

British officers are less impressed, saying their predecessors often repeated their errors. During the troubles in Northern Ireland, the arrival of British troops in 1969 was at first welcomed by Roman Catholics. But the army's heavy-handed methods, such as large cordon-and-search operations and the shooting of 13 civilians on Bloody Sunday in 1972, pushed many Catholics into the arms of the Provisional Irish Republican Army.

In any event, the American army and marines have produced a new counter-insurgency manual. One of its authors, General David Petraeus, is now in charge of the “surge” in Iraq. It may be too late to turn Iraq round, and Afghanistan could slide into greater violence. But the manual offers some comfort: it says counter-insurgency operations “usually begin poorly”, and the way to success is for an army to become a good “learning organisation”.

According to Mao's well-worn dictum, guerrillas must be like fish swimming in the “water” of the general population. T.E. Lawrence, helping to stir up the Arab revolt against Turkish rule during the first world war, described regular armies as plants, “immobile, firm-rooted, nourished through long stems to the head”. Guerrillas, on the other hand, were like “a vapour”. A soldier, he said, was “helpless without a target, owning only what he sat on, and subjugating only what, by order, he could poke his rifle at”.

Western armies have unsurpassed firepower, mobility and surveillance technology. Guerrillas' main weapons are agility, surprise, the support of at least some sections of the population and, above all, time. The warren of Iraqi streets and the fortified compounds of Afghanistan compensate for the insurgents' technological shortcomings. The manual, however, attempts to change the army mindset: in fighting an enemy “among the people”, it says, the central objective is not to destroy the enemy but to secure the allegiance of the citizenry. All strands of a campaign—military, economic and political—have to be strongly entwined.

Much of this thinking is drawn from the British experience in Malaya, but conditions today are vastly different. In Templer's day, securing “hearts and minds” did not mean just acting with kindness to win the people over; it also included coercion. Hundreds of thousands of ethnic Chinese, among whom the insurgents mainly operated, were uprooted and moved into guarded camps known as “new villages”, where they were offered land. If the British could not find the fish, they resorted to removing the water.

They also sought to starve insurgents by restricting supplies of food to the population. In some areas rations of rice were handed out in cooked form so they would spoil before they could reach fighters in the jungle. Such measures are unthinkable today. Even the building of separation walls to reduce sectarian killings in Baghdad arouses Iraqi opposition. Checkpoints and curfews now have limited impact.

Templer was both the civil and the military boss. He emphasised policing rather than military operations, and the use of indigenous forces. The majority Malay population largely supported the British. In a peninsula, the borders were relatively well controlled and the rebels had few external sources of support. Above all, the British had full sovereignty over Malaya. They could undercut the insurgents' claim to be fighting colonialism by guaranteeing equal rights, and by promising—and eventually granting—independence.

By contrast, the borders of Iraq and Afghanistan are permeable. Some neighbours are either hostile to the West (Iran) or unable to remove insurgent havens (Pakistan). The powers of America's Coalition Provisional Authority in Iraq lasted a year, long enough for America to make egregious errors, such as disbanding the Iraqi army and removing former Baathists, but not long enough to correct them.

Discontinuity of command

In Iraq the American effort is split between the military operations overseen by the generals and the civil and political work conducted by the embassy. In Afghanistan leadership is even more divided. There are two separate Western military commands—the NATO-led International Security Assistance Force, which provides the bulk of the troops, and the American-led Operation Enduring Freedom, which concentrates on hunting “high-value targets”. Alongside these are a myriad of poorly co-ordinated reconstruction agencies.

Coalitions add further complications. Britain, America's only ally of any military significance in Iraq, is slowly leaving. And in Afghanistan, where boots on the ground are in short supply, NATO is wobbly. Many allies refuse to join a fight that has been waged mainly by American, British and Canadian forces, and several are under domestic pressure to bring their troops home. Overt colonialism has died, and with it have gone the large colonial armies. Counter-insurgency requires large numbers of security forces. But the West's all-volunteer forces have progressively cut expensive manpower in favour of technology. They have become infinitely better at finding and destroying things; but the best source of intelligence on the ground is often the soldier on the street with his “Eyeball mark-1”.

Nationalist and pan-Islamic sentiments are much stronger than in the past. Information technology has helped jihadists spread the “single narrative” that Muslims everywhere are under attack, a contention reinforced by America's rhetoric about the “global war on terror”. The internet provides a new and unassailable sanctuary from which to propagandise, organise and share tactics.

Still, the generals plead for more time. They point to Iraq's Anbar province, where Sunni tribes are turning against al-Qaeda. In Afghanistan, says Britain's General Dannatt, “strategic patience” is essential. American officers quote internal studies showing that it takes nine years on average (and often much longer) to defeat insurgencies. Yet perseverance is no guarantee of victory; many campaigns have taken as long, if not longer, to lose.

A growing body of opinion, both in the Pentagon and outside, has concluded that insurrections are best fought indirectly, through local allies. “It is extremely difficult for Western powers to defeat insurgencies in foreign countries in modern times,” says Max Boot, author of “War Made New” (2006). “At the same time, there are very few instances of insurgencies overthrowing a local government. The problem is that Western armies lose the will to maintain imperial domination.” Western forces always have the option of going home; for local governments, though, fighting insurgents is a matter of survival.

A better model than Malaya, argues Mr Boot, is the end of the Marxist insurrection in El Salvador in 1992. American forces did not lead the fighting. Instead, a small contingent of under 100 advisers from America's special forces helped the democratising government reorganise its army and avoid the fate of nearby Nicaragua, which fell to the Sandinistas in 1979. This approach has its own difficulties: America's reputation was tarnished by right-wing Salvadorean death-squads. In the end it was external political factors—the demise of the Sandinistas in Nicaragua, partly caused by an American-backed insurgency, and the collapse of the Soviet Union—that helped bring about a settlement and the incorporation of the guerrillas into a new-found democracy.

David Kilcullen, an Australian colonel and General Petraeus's main adviser on counter-insurgency, says fighting insurgencies in other people's countries is hard. “Running Baghdad is not like trying to police New York City; it's like the Iraqi police trying to run New York City.” Tellingly, he says, Indonesian forces successfully put down an insurrection by the Islamist Darul Islam movement in the 1950s and early 1960s, but could not quell the resistance to their annexation of East Timor.

The dilemma for Western forces in Iraq and Afghanistan is that, though they may lack the wherewithal to win, the national governments they seek to help are unable to stand up on their own. At best, Western armies can create the political space to build viable governments. But this has proved difficult enough even where the fighting has stopped and the main political forces have been co-operative (or at least acquiescent)—as in Bosnia and East Timor. It may be impossible under sustained fire.

More brain, less brawn

Although most armies have now relearnt the limits of force and the importance of the “comprehensive approach”, commanders complain that other branches of government have not. In a recent article, General Peter Chiarelli, an adviser to Robert Gates, America's secretary of defence, says more money has to be spent not on the Pentagon but on the “non-kinetic aspects of our national power”. He recommends building up the “minuscule” State Department and USAID development agency (so small it is “little more than a contracting agency”), and reviving the United States Information Agency.

As the American army expands, some thinkers, such as Colonel Nagl, say it needs not just more soldiers—nor even linguists, civil-affairs officers and engineers—but a fully fledged 20,000-strong corps of advisers that will train and “embed” themselves with allied forces around the world. The idea makes army commanders blanch, but they do not question the underlying assumption. Insurgencies may be the face of war for the West in the years ahead. Even if America cannot imagine fighting another Iraq or

Afghanistan, extremists round the world have seen mighty America's vulnerability to the rocket-propelled grenade, the AK-47 and the suicide-bomber.

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California's fires

The fires of October

Oct 25th 2007
From The Economist print edition

Reuters

Southern California has been horribly scorched, but the response to this disaster shows how the authorities have learned from Hurricane Katrina

ROADS that are usually choked with traffic were choked with smoke instead. Spacious homes erupted in flames. Picturesque mountainsides turned black. Helicopter crews far above the inferno felt the heat. The wildfires that swept through southern California this week gripped more than 700 square miles (1,700 square km) in their incendiary embrace.

The fires began on October 21st, a Sunday. The Santa Ana winds, which whip dry air from the desert plateau westwards and downwards into southern California, heating up as they descend, were blowing uncommonly fast. Before long, fires were blazing uncontrollably in seven counties. Perhaps as many as a million people have been forced to flee their homes. At least one person died in the flames, and five more died during the mass evacuation. Dozens of firefighters have been hurt. But 22 people died in the terrible fires of 2003.

At least 1,500 homes have been turned to cinders. The director of San Diego county's emergency services guesses that the damage will exceed $1 billion. By October 24th the wind had slowed from its top speed of about 100mph (160kph), raising hope that the worst was over. But the flames were still roaring and spreading, despite the best efforts of 10,000 firefighters to douse and contain them.

The response was swift and competent. For example, San Diego made use of a new system called “Reverse 911” (after the number Americans call for emergency services). Instead of people calling the authorities, a robo-dialler called the people, urging hundreds of thousands of them to evacuate their homes. Huge crowds congregated at designated gathering points such as the city's Qualcomm stadium (though a few mistakenly went to the offices of Qualcomm, the telecoms firm after which the stadium is named). Fugitives were given food, water and blankets.

California's governor, Arnold Schwarzenegger, quickly took charge. He had air tankers drop water on the flames as soon as it was practical. Asked why there were not more aircraft available, he said there were plenty, but with such violent winds it was too dangerous for many of them to be airborne. “Those that can fly are flying, and are putting out fires,” he said.

Mr Schwarzenegger asked President George Bush to declare a federal emergency, a request Mr Bush had expected and pre-approved. The governor helped to co-ordinate the efforts of Californian emergency workers with the Federal Emergency Management Agency, which set up shop in Pasadena, California, the day after the blazes began.

Mr Bush acted faster and more empathetically than he did after Hurricane Katrina devastated New Orleans in 2005. He immediately sent helicopters, troops and supplies to California. He said his prayers were with those affected by the fires, and he promised to come and visit them on October 25th.

So far, California has been spared the squabbling between federal, state and city authorities that hobbled the response to Hurricane Katrina. Partly, this is because Mr Schwarzenegger did not dither like Louisiana's governor, Kathleen Blanco, did. It also helps that none of the mayors of fire-affected towns is as hysterical and ineffective as New Orleans's Ray Nagin. But it also seems that Mr Bush has learned a few lessons from the Katrina debacle—the federal response is noticeably more robust this time.

America is a place of extreme weather (see article). But why were the fires so destructive? Harry Reid, the Senate majority leader, blamed global warming. (When pressed, though, he backed off and said that many factors were involved.) Joel Kotkin, a demographer, points out that California has always had fires during dry years, at least since the time of the Spaniards. Recent ones have caused more damage than those 30 years ago, because the population has grown and many more Californians have moved out of city centres and built big homes surrounded by foliage. “In more remote areas, you're more susceptible to fire,” argues Mr Kotkin, “and nature still has a lot of power.”

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Drought

The parched country

Oct 25th 2007 | COLUMBIA
From The Economist print edition

America's south-east has been wracked by more than a year without much rain

AFTER 18 months of sunny skies and scorching heat, crops are shrivelling, lawns are crisping and lakes are drying up. This is not scorched California or America's arid south-west, but its normally lush south-east. The Department of Agriculture's "drought monitor" says that 32% of the region is in "exceptional drought," the most severe designation and one expected on this scale only once or twice a century. The problem is exacerbated by the south-east's inexperience with lack of rain, and by the area's booming population.

In Atlanta, the largest metropolitan area in the south-east, 3m residents will lose their main source of drinking water by January if the level of nearby Lake Lanier continues its precipitous drop. Georgia's governor, Sonny Perdue, who earlier urged Georgians to take "shorter showers", filed a lawsuit on October 19th seeking to force the Army Corps of Engineers to stop draining so much water from Georgia's reservoirs to supply Alabama and Florida. A day later, he declared a state of emergency across the northern third of Georgia.

Outdoor watering bans already cover the affected part of the state, and local governments are considering rationing. Atlanta's mayor, Shirley Franklin, has suggested desalinating sea water from the Atlantic Ocean. Stone Mountain Park, Atlanta's popular theme park, has ceased making artificial snow for its Coca-Cola Snow Mountain.

The problems are widespread. North Carolina's governor, Michael F. Easley, urged residents last week to stop using water for any reason "not essential to public health and safety". In Tennessee, hydroelectric power production within the Tennessee Valley Authority (TVA), the government agency that generates electricity for seven south-eastern states, has been halved because of low water supplies. The first five months of this year was the driest such period in the valley in its 118 years of record-keeping, the authority said.

Even normally verdant Florida, regularly battered by hurricanes and tropical storms that can dump up to 50 inches (1.3 metres) of rain annually, is feeling the pinch. Lake Okeechobee, the second-largest fresh-

water lake in the country, is showing dry patches from lack of rain.

Agricultural economists say the drought is costing billions of dollars, with farmers in dire financial straits unless they had the foresight to buy federal crop insurance. In North Carolina tobacco hanging in barns is not curing because it's too dry. In South Carolina many cattle farmers are selling off their livestock because feed is running low or unavailable.

In Georgia officials say the drought so far has caused $787m in lost production—primarily in hay, cotton, peanuts and maize. The 60% of Georgian farmers whose fields are not irrigated have lost all of their crops—a “staggering” situation, according to Tommy Irvin, commissioner of the Georgia Department of Agriculture. Officials can't yet say how many farmers in the south-east have been forced into bankruptcy, but one thing is certain: the states have no spare cash for relief.

The weather forecasters aren't offering much solace, either, predicting a warmer and drier winter than normal for the south-east. As for the longer term, the fear is that global warming will make droughts like these more common.

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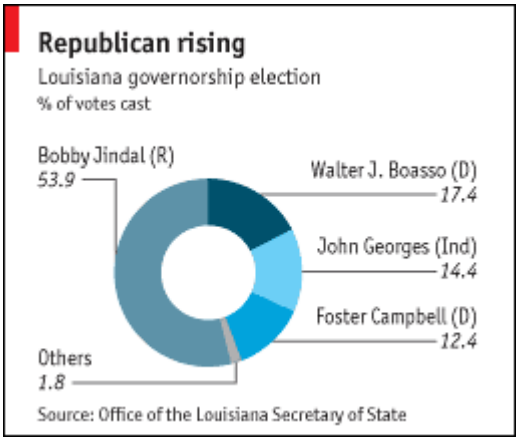
Louisiana

Bucking a trend

Oct 25th 2007 | NEW ORLEANS
From The Economist print edition

Some rare good news for Republicans in the shape of a governor



WHEN it comes to the business of elections, Louisiana likes to confound conventional wisdom. While most of its Southern neighbours were busy electing Republicans during the early 2000s, Louisiana stubbornly returned a Democrat, Mary Landrieu, to the Senate in 2002, and put another one, Kathleen Blanco, in the governor's mansion in 2003. Now, as Republican fortunes have sagged across the nation—in no small part because of the Bush administration's failure to cope with Hurricane Katrina's devastation of Louisiana's coast in 2005—the party is having a banner year in the state.

Atop the scorecard is the Republicans' reclamation of the governorship, in a rare primary-election victory by the 36-year-old Bobby Jindal on October 20th. Unusually, Louisiana holds a combined primary for all candidates, Democrat and Republican, with the top two vote-winners going forward to a run-off. Even more unusual is for a candidate to win outright on the first round, which is what Mr Jindal managed, polling an impressive 54% of the primary vote. Perhaps most remarkable of all is that Mr Jindal, who is Indian-American as well as very young, has overturned what had been supposed to be deep-seated prejudice. Four years ago, his defeat by Ms Blanco was widely viewed as proof that the state's “Bubbas”—rednecks uncomfortable with politicians who don't look like them—had not evolved.

But just four years later, Bubba seems to have granted Mr Jindal, whose given name is Piyush, honorary redneck status. (Four years ago, bumper stickers appeared with the slogan “Bubbas for Bobby”, but the message has taken a long time to sink in.)

Mr Jindal is something of a paradox. He is the first non-white governor since Reconstruction; he is a Rhodes scholar; he is the nation's youngest governor. In other words, he's a breath of fresh air, a sign of progress who promises to eradicate corruption in what many say is America's worst-governed state. On the other hand, he is a religious conservative who was as reliable a rubber-stamp as George Bush had in Congress, refusing to make a fuss even when Republicans there were blaming New Orleans for Katrina. Not all of the air is fresh.

Mr Jindal's victory is only the icing on the cake. The Republicans are expected to take five of the six elected state offices in Louisiana when the run-off votes are counted next month.

And next year the Democrats' top officeholder, Ms Landrieu, looks like facing an uphill battle. When she was last elected, in 2002, she won in large part thanks to a landslide in her home city, heavily Democratic New Orleans. Whereas the city's predilections haven't changed dramatically, its size has, and its electoral significance along with it. In 2002 almost 133,000 New Orleanians voted in the Senate race. On October 20th less than 60% of that number turned up at the polls, a sign of the city's post-Katrina shrinkage. Ms Landrieu won New Orleans by almost 80,000 votes in 2002, twice her overall margin of victory. This time, that was more votes than all the candidates got combined in the city that was once the alpha and the omega of Louisiana politics.

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Jenna Bush

A compassionate conservative

Oct 25th 2007 | AUSTIN
From The Economist print edition

The first daughter's charm offensive

JENNA BUSH is the younger, blonder and rowdier of George Bush's twin daughters. Her adolescence was punctuated by a few run-ins with the law. During one trip in the paddy wagon, she was photographed sticking her tongue out. In another episode, she tried to use fake ID to buy booze at a Tex-Mex restaurant in Austin. It is surprising that she tried. She looks somewhat like her father.

Until recently these escapades defined her public image. But at 25, Ms Bush has grown up more quickly than her father did in his day. She graduated from the University of Texas at Austin, leaving her sister Barbara to carry on the family tradition of slogging through Yale. She then taught at public schools in Washington, DC, before travelling to Latin America to work for UNICEF. In September she published a book based on her experiences there.

AP

The new version

“Ana's Story: A Journey of Hope” is the tale of a teenaged mother, infected with HIV at birth, shuttled between abusive relatives and shelters. Ms Bush describes how her heroine hated overhearing fights between her grandmother and the predatory boyfriend she lived with. “On these nights,” she writes, “Ana played a game she called Orphan.”

Ms Bush is currently touring the country to promote the book and its message, which is basically that people should be nice to one another and always use condoms. It is a vague platform, but bold in its way. Her father's administration prefers to tackle HIV by encouraging abstinence.

In appearances Ms Bush has been bright, friendly and diplomatic. But she has not become a Stepford citizen. She recently got engaged to Henry Hager, a Republican scion himself. Larry King, a TV chat-show host, asked if her parents would host the wedding at their current residence. Ms Bush was carefully sceptical. “You know,” she said, “I think the White House is a very fancy place for glamorous people.” She prefers to eat Mexican food with friends. A similarly easy demeanour once drew Americans to a young governor from Texas. The intervening years have proved that charm is not enough. But it doesn't hurt.

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Spooky business

The Nightmare before Christmas

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From The Economist print edition

Fear is booming

IS HALLOWEEN becoming the new Christmas? The creators of Nightmare, New York City's most popular haunted house, certainly hope so. Every October their slickly produced horrors scare up big money, and they are not alone.

The attraction asks New Yorkers to reveal their most elemental fears via the internet and then incorporates the most horrifying submissions—which can be very alarming indeed. Like zombies, locals have shuffled to Nightmare in droves: from about 6,000 visitors in its first production in 2003 to over 25,000 last year. This year's version, Ghost Stories, re-creates Gothamites' spookiest paranormal experiences across 23 rooms, each of which features a different spirit. Chip Meyrelles, the exhibit's producer, is expecting 35,000 visitors during the September 28th to November 3rd run. The takings should exceed $1m.

No surprise, then, that Nightmare has company. Just up the Hudson river is Headless Horseman, where Washington Irving's fictional and famously decapitated equestrian has returned with dozens of creepy friends in tow. At Terror on the Fox in Green Bay, Wisconsin, visitors can look forward to vertigo, claustrophobia and the scurrying and slithering of live rats and snakes. And Mountville, Pennsylvania's Field of Screams unleashes a bloodthirsty butcher on adults while youngsters are shunted off to Little Screamers, a non-scary hayride. In fact, some 30m American adults will spend over $650m at America's more than 1,200 haunted attractions this year.

This is all part of a broader boom for Halloween, which bridges the retailers' gap between the return to school and Christmas. Stores like Target and Wal-Mart start selling costumes, sweets and other ghoulish offerings as early as Labour Day in early September. Total spending is up more than 50% since 2005, with Americans poised to lay out a record $5 billion this year, according to the National Retail Federation, a trade association. There's still a long way to go before it supplants Christmas, though. Spending over the grandfather of all festivals is an astonishing $475 billion.

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Immigration

Let them drive

Oct 25th 2007 | NEW YORK
From The Economist print edition

The governor's immigration policy causes road rage in New York

THE state of New York is joining a growing list of local governments who feel compelled to devise their own ways of dealing with illegal immigrants because of the federal government's failure to do so. Eliot Spitzer, the governor of New York, is making good on a campaign promise from last year. By as soon as December, the state's undocumented immigrants, who are reckoned to number anywhere from 500,000 to 1m, could start to get licences that will allow them to drive legally.

Many people hate the idea of doing anything that might confer any type of legitimacy on illegal immigrants. But Mr Spitzer argues that it is high time to deal pragmatically with the hundreds of thousands of people living in New York's shadows. Unlicensed drivers are five times more likely to be in a fatal crash than licensed ones. The governor argues that New York's streets will be safer because more people will have access to insurance and will know the road rules.

Currently, you need a Social Security number to get or renew a licence. Under Mr Spitzer's plan, a valid foreign passport will do. But the review process will be stringent. Photographs will be run through state databases and passports scanned and verified before a licence is issued.

Eight other states still allow people to get drivers' licences even if they don't have Social Security numbers. Utah is one of them, but in 2005 it amended its policy. “Driving privilege cards” are available for Utah applicants without a Social Security number, but they are not considered valid identification for other purposes.

In other states a licence does not just allow driving: it also acts as identification for boarding planes and for opening bank accounts. The notion that New York's undocumented will now have access to aeroplanes doesn't go down well with the state's Republican majority, who moved on October 22nd to block Mr Spitzer's plan in a special session. Joseph Bruno, the state Senate majority leader, who has been at loggerheads with Mr Spitzer since the summer (Mr Spitzer's office accused Mr Bruno of abusing his aircraft privileges), says the policy change is unconstitutional and contradicts a federal act which requires, among other things, a valid Social Security number to get a driver's licence.

The directive is causing heated debate, and not just in the state legislature. At a special meeting of the New York State Association of County Clerks, 29 clerks voted to oppose the governor's plan, with over a dozen vowing to disobey his orders. One filed a lawsuit to prevent implementation of the new policy. Rudy Giuliani, a former mayor of New York, calls the plan a mistake. John Lehman, who served on the 9/11 Commission, thinks it will turn New York into even more of a magnet for terrorists. And polls say around 70% of New Yorkers think it's a bad idea.

Not everyone is against the plan. Sheldon Silver, the powerful Assembly speaker, supports Mr Spitzer, as does Richard Clark, a former counter-terrorism expert in the Clinton and Bush White Houses. He is encouraging other states to adopt New York's policy. He thinks it is only sensible for governments to know who is driving on its roads—and to keep their pictures and addresses on file.

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Buses

The Chinatown express

Oct 25th 2007 | NEW YORK TO WASHINGTON, DC
From The Economist print edition

Innovation brings emulation

IT USED to be that you had to venture below the grime-caked pylons of the Manhattan Bridge, to a scene more reminiscent of Luoyang than of the Lower East Side, in order to catch a cheap bus ride between New York and Washington, DC. Even now at the intersection of East Broadway and Forsyth St, ticket hawkers scream out destinations in thick Cantonese accents—“DC, DC, DC!” “Philly, Philly!”—and grab the arms of passers-by toting luggage. Loading queues often disintegrate into a Hobbesian struggle to nab untaken seats.

Despite all this, the business is a model of thrift and ingenuity, revolutionising travel in the north-east by selling tickets between its big cities for as little as $12. In a testament to the power of the invisible hand, the rough-and-tumble success of the Chinese bus lines is attracting new competitors, and the industry is becoming less dodgy in the process.

The Chinatown bus business developed in the 1990s to offer recent immigrants an inexpensive van ride around town and, later on, between cities. By the end of the decade, the Fung Wah bus company had begun shuttling college students and other cash-strapped Americans between New York's Chinatown and Boston's for $10 each way.

Competition soon became so intense that it prompted the 2004 “bus wars” in New York's Chinatown, in which buses were rammed and torched and a decapitated torso was left near a passenger loading zone. Spotty safety records—in 2005 one Chinatown bus caught fire on the road—and reports of drivers working excessive hours also raised concerns about safety. But with prices so low, the buses still left packed.

Greyhound, America's biggest passenger bus line, dropped its prices, offering a name-brand alternative to the Chinatown coaches. Dozens of new competitors also emerged. Hasidic Jews from Brooklyn founded the Washington Deluxe and Vamoose Bus. Most recently, a Marriott executive founded DC2NY, a service between Washington and New York that guarantees customers seats if booked online and charges only slightly more than the Chinatown buses (a $40 round-trip versus $35). It also offers free bottles of water and Wi-Fi internet access. The “luxury” bus carrier has more than doubled its operation since its inaugural trip this summer. Watch as its older rivals start copying its perks.

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The rustbelt

Back from the dead

Oct 25th 2007 | CLEVELAND AND FLINT
From The Economist print edition

Glimmers of hope in two of America's industrial cities

FLINT, Buffalo, Dayton, Saginaw—for years these names have read like tombstones in the graveyard of America's rustbelt. But something is changing in Flint, Michigan, the symbol of industrial gloom. Like other rustbelt cities, Flint's population rose on the back of manufacturing (Flint was the birthplace of General Motors). Then came the white exodus to the suburbs and deindustrialisation, with Flint's ruin made famous in a film by Michael Moore. Flint's population is now just more than half what it was in 1960. One-third of its residents are officially poor.

But there are glints of progress, and not just because GM is building a new factory. Construction workers are beginning to transform the downtown area. There is a heated contest for mayor: Dayne Walling, a Flint-born Rhodes scholar brimming with good ideas, is challenging Don Williamson, the incumbent, in November's election. Flint is trying to chart its own course. And it is not alone. A faint spirit of change is wafting through some of the rustbelt's grimmest streets.

Scholars at the Brookings Institution, a Washington, DC, think-tank, argue that America's old industrial cities can indeed rise again. Big cities such as New York and Chicago have experienced a rebirth, thanks in part to fine mayors and a surge of immigration and new business in the 1990s. Most rustbelt cities have had a more modest revival or none at all. But urban optimists insist that the renaissance can spread: cities are the natural centres of the new knowledge economy and will only grow more appealing to young people and ageing baby-boomers, who want amenities near their homes.

Still, there is much work to be done. Key to any revival are basic improvements: a city must be safe, its rubbish collected, its schools adequate. How to make a city viable in the long term is an unresolved question. But a few places are trying to provide answers.

An early task is to address the physical problems. Some 16m people live in America's old industrial cities; they will not stay if their downtowns look abandoned. In Flint a shrinking population and high foreclosure rates (not a new trend in this town) mean you can hardly go a block without seeing a decrepit house. Blighted buildings are like cancerous cells: they spread crime and lower nearby property values, gnawing away at Flint's shrunken tax base. Many cities share this problem. In Youngstown, Ohio, the mayor plans to tear down blighted areas so he can save threatened but still viable neighbourhoods.

A small band in Flint is following a less radical but still imaginative strategy. Dan Kildee, the county treasurer, founded a land bank in 2002 that acquires abandoned buildings through foreclosure, then readies them to be sold and returned to the tax rolls. The bank, which won Harvard's innovation award in September, claims to have increased property values by more than $112m so far.

Also in Flint are LISC, part of a national non-profit group that channels grants and loans toward community work, and Uptown Developments, which is using so-called “baklava financing”—layers of private investment, loans, grants, federal and state tax credits—to build residential lofts as well as retail and office space downtown. Together, these groups are trying to make Flint liveable, a city that might lure a start-up or retain its students after graduation. Mr Williamson has helped by repaving hundreds of miles of roads. Mr Walling, if elected, plans to harness this work under a broader plan for downtown, its surrounding neighbourhoods, three local colleges and medical centres.

The physical task is serious enough. Addressing the rustbelt's structural economic problems is a much thornier question. Cleveland is slowly experiencing the physical renaissance sought in Flint, with new museums, a university building designed by Frank Gehry, a plan to reclaim the lakefront and another to improve transport between downtown and a hub of universities and hospitals. But to tackle its larger economic woes, the city is tying its fate to the rest of north-east Ohio.

Making use of the hinterland

A more regional approach can benefit not only inner cities, but their surroundings as well. For decades cities and suburbs have competed for jobs, residents and state and federal aid to ill effect. To change this, the Fund for Economic Future, an alliance of foundations in north-east Ohio, worked with civic and business leaders from 16 counties to launch a regional scheme in March. The plan includes supporting companies that build on local strengths, such as Cleveland's universities and medical centres (the Cleveland Clinic is America's leading hospital for cardiac care), and improving workforce training for high-tech manufacturing, health care and other understaffed sectors.

The Fund is also exploring ways for the region's various governments (754 in all) to share revenue and rationalise services. Tax-sharing schemes have helped other struggling cities, including Dayton, Ohio and Rochester, New York. Cleveland and some surrounding towns have already agreed to split taxes from businesses that move within the area; in exchange, Cleveland is providing water services.

These schemes to revive Flint, Cleveland and cities like them are making progress, but it is slow and uneven. Improvements in Cleveland in the 1990s were then threatened by recession, and the subprime crisis has not helped. Jennifer Vey of Brookings argues that local efforts could be bolstered by state support, which has been meagre. She points to Pennsylvania as a state with a strong urban agenda—Pennsylvania has the advantage of a governor, Ed Rendell, who was mayor of Philadelphia.

Even the most avid urban optimist does not expect these cities, having declined for decades, to recover overnight. Flint's home prices dropped by a startling 21% so far this year. On a recent afternoon in Cleveland, a “Believe in Cleveland” banner was matched by a nearby beggar with a sign that just read “Hungry”. But there are hints of progress where there was none. William McMickens, a cab driver and son of a factory worker in Cleveland, pointed to construction along Euclid Avenue: “When this is done, the whole city is going to change.” In these cities, long left for dead, a hard hat is a sign of hope.

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Lexington

Of horses' teeth and liberty

Oct 25th 2007
From The Economist print edition

Illustration by Peter Schrank

The home of unbridled capitalism has more red tape than you think

IN THE wild, horses eat tough grass that naturally wears down their teeth. In captivity, they are fed softer food they can eat more quickly, so their teeth grow unchecked. Unless filed down—a process known as “floating”—they can grow too long and cut the horse's cheeks. Floating is hard work. Carl Mitz has been doing it for 22 years. He calms each horse before holding its mouth open and vigorously filing its teeth by hand until they are just so. A third-generation horseman, he says he has handled 100,000 horses. His customers are satisfied, judging by the sheaf of testimonials on his desk. But the Texas State Board of Veterinary Medical Examiners wants to shut him down.

Mr Mitz may be a skilled artisan, but he is not a vet. And the board says that only vets may float horses' teeth. If Mr Mitz persists in doing his job, he will be practising veterinary medicine without a licence. The penalty could include steep fines and even prison. Mr Mitz is miffed. Even if he could get into vets' school, which he doubts, he could not possibly afford the fees. And he does not see why he should take years off work and pay tens of thousands of dollars to pursue studies that may not help him in his work. Vets' schools typically teach little about equine dentistry. “It's ludicrous,” he says.

Mr Mitz is one of four horse-tooth floaters in Texas suing to be allowed to carry on earning a living. The case attracts few headlines, but the principle is important. Regulators should not shut down an honest business without good cause. The vets' board says letting non-vets file horses' teeth endangers the horses. Dewey Helmcamp, the executive director, says the board received half a dozen complaints in a year and a half about poor care from fly-by-night floaters. But that label hardly applies to Mr Mitz, who says he has never botched a floating. His customers fear that they may have to pay a vet more to do the job less well. “This should be my choice, not yours!!!” reads a typical letter from one of Mr Mitz's clients to the board.

Supporting Mr Mitz's lawsuit is a group called the Institute for Justice, which fights affronts to economic freedom, such as licensing rules designed to protect incumbents from competition. These typically purport to protect consumers, but often serve mainly to jack up prices by deterring newcomers from setting up shop. In Minnesota, for example, the state board of barbers and cosmetologists barred African hair-braiders from braiding hair unless they underwent 1,500 hours of irrelevant training, until the institute took up their case and won.

For competition-shy incumbents, no risk is so trivial that government action is not required to avert it. In four states, you need a licence to practise interior design. In several more, you can do the job but you can't advertise yourself as an “interior designer” unless you pass a state-mandated test (of fabulous taste, presumably). The only people lobbying for such regulations are established interior designers. The net result is less competition and higher prices. But with no one organised to lobby against them, the

rules often pass.

Overall, the benefits of regulation in America far outweigh its costs, says the White House's Office of Management and Budget. Between 1996 and 2006, it puts the annual cost of the main federal regulations at between $40 billion and $46 billion, whereas these rules yield between $99 billion and $484 billion in annual benefits. Yet many experts doubt these figures. Jerry Ellig of George Mason University notes that they are based on the estimates various agencies make when they propose rules, with little attempt to measure how they work in practice. The Competitive Enterprise Institute, a conservative think-tank, reckons that the true cost of all federal regulations is a whopping $1.1 trillion a year, a figure that includes the burden of price supports, barriers to entry and complying with the tax code. For a small firm, complying with federal regulations costs $7,600 per employee per year, according to a report prepared for the Small Business Administration.

Hard to quantify, especially if you don't try

Experts admit that they don't even know whether the regulatory burden is growing or shrinking. Since the 1970s, many rules have been revoked. Price controls are a distant memory and several industries, from airlines to banking, have been deregulated. But rules relating to health, safety, the environment and national security have multiplied. Some of these are necessary, but many are not. For example, by one estimate, American health-care regulations cost $169 billion a year more than they yield in benefits, and lead to 7m Americans not being able to afford health insurance. By another estimate, measures to keep terrorists off aeroplanes cost lives by prompting people to drive instead of fly, which is nine times more dangerous.

Many of the effects of regulation are hard to measure. But a deeper problem is that politicians often don't try very hard to weigh costs against benefits at all. After an exhaustive study of American regulations, Robert Hahn of the American Enterprise Institute, a think-tank, concluded that quite a lot of cost-benefit analysis is done, but it is sometimes shoddy and politicians often ignore it.

Politicians are reluctant to be seen opposing almost any rule aimed at thwarting terrorists, or to allow economists to put a price on a human life (hence all the health-care rules) or a pristine landscape. And even the worst regulation usually heaps benefits on a small group, while its costs are widely spread. The beneficiaries thus lobby hard to keep each rule, while its victims do nothing. The late Mancur Olson, an economist, predicted that interest groups will grow in number until they cause their host society to slip into economic decline. America is nowhere close to that. But it surely needs more watchdogs (and horse floaters) to growl at the regulators.

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Mexico and the United States

Just don't call it Plan Mexico

Oct 25th 2007 | MEXICO CITY AND MIAMI
From The Economist print edition

Eyevine

A controversial scheme for American aid to help its southern neighbour fight drugs looks useful but underwhelming

THE idea was first mooted at a meeting near Mérida last March between Mexico's president, Felipe Calderón, and George Bush. Months of negotiations culminated in weeks of leaks, mainly from American officials. But for such a well-rehearsed exercise, the announcement when it finally came was oddly low-key. On October 22nd both governments said that in an early-morning telephone call the two presidents had agreed on a plan under which the United States will provide Mexico with $1.4 billion in aid over the next three years to fight drug traffickers.

Patricia Espinosa, Mexico's foreign minister, said the largest single chunk of an initial $500m would be spent on aircraft—mostly transport planes, she said, although in Washington, the State Department talked of surveillance aircraft and helicopters. There will also be scanning equipment at the border, and new communications systems, training and technical advice for Mexican police, including help on a witness-protection programme. And the United States will also give $50m in anti-drug aid to the Central American countries.

Officials in both countries say the proposed aid package, attached to a supplementary funding bill, is a response to the upsurge in violence unleashed by feuding drug gangs in Mexico. This saw 2,100 drug-related murders in 2006, a number already surpassed this year. Many have taken place in cities just south of the border. Those killed include gangsters, police and soldiers, innocent bystanders—and journalists (see article).

On taking office last December, Mr Calderón made law and order his top priority, sending 30,000 army troops and federal police into half a dozen states. He has authorised the extradition of several gang leaders to the United States.

If the details of the aid package are still fairly sparse, that points to the political sensitivity of the plan. Legislators in both countries complained of not being consulted. Both are wary of any resemblance to Plan Colombia, under which the United States has spent some $5 billion since 1999. Although this has helped to reduce violence in Colombia, it has had relatively little impact on drug production. Mexican officials, sensitive to concerns about their country's sovereignty, have repeatedly said that they will not accept American military advisers nor private contractors, both of whom are present in Colombia, on their territory.

In fact, there are big differences between the two schemes. While being sold as an anti-drug programme, Plan Colombia is in reality a counter-insurgency exercise. Mexico is free of Colombia's large guerrilla and paramilitary forces. And American aid will be relatively small. Mexico plans to spend $7 billion on law enforcement over the next three years. American officials stress that the package is testament to the growing confidence and co-operation between law-enforcement agencies on both sides of the border.

The bigger question is whether the aid will be effective. Some Mexican analysts say that the package won't tackle the heart of the problem: the low pay, poor organisation and systematic corruption of Mexico's police forces. “They are overemphasising the technology,” says Luis Astorga of the National Autonomous University in Mexico City. Mexican officials have often said that the most useful thing its neighbour could do is curb the export of guns to the traffickers.

American officials claim that Plan Colombia, combined with Mr Calderón's crackdown, is finally having an impact. Last month they released figures showing that cocaine prices have risen on American streets while purity has declined. But critics of the “war on drugs” question the methodology behind those figures as well as the official interpretation. They say the weakness of the dollar has caused traffickers to divert more product to Europe. (Consumption has also increased greatly in Latin America.)

Some also question whether action against drug supply can ever have much effect as long as demand continues. The drug “war” has had the effect of shifting the trade from place to place, rather than halting it. Thus Mexican gangs came to eclipse their Colombian counterparts in firepower and economic muscle. According to an August report by America's Government Accountability Office, over 90% of cocaine in transit to the United States now passes through Mexico, up from two-thirds in 2000. Over the same period seizures of methamphetamines at the United States-Mexico border increased fivefold.

“Success in one place can often turn around and devastate someone else,” says Joy Olson of the Washington Office on Latin America, an NGO. “If we are going to be 'successful' in Mexico, we need to ask who is going to be devastated next.” But despite such doubts, the United States Congress will probably approve the aid—unless this falls victim to a new mood of deficit-cutting.

Many Mexicans will no doubt think that it is about time that their rich neighbour helped to clean up the mess caused by a drug habit that prohibition has failed to eliminate. The American Justice Department's National Drug Intelligence Centre reckons that each year between $8 billion and $23 billion in illegal drug proceeds flow south, much of it to the gangs in Mexico. Put beside that, the aid package looks like much ado about peanuts.

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Violence in Mexico

A dangerous trade

Oct 25th 2007 | MEXICO CITY
From The Economist print edition

Can a new law protect journalists?

MONTH after month, the cases mount up. On October 8th, three deliverymen working for *El Imparcial del Istmo*, a newspaper in the southern state of Oaxaca, were shot dead. All the paper's journalists resigned the next day. In April and May, grenades twice exploded outside the offices of *Cambio de Sonora* in Hermosillo in northern Mexico. The newspaper suspended publication. A month before, a reporter for a weekly magazine in the same city was beaten with a rifle stock by two policemen.

Mexico has become the most dangerous country in the Americas for journalists—and by one count the world's second deadliest after Iraq. According to Reporters Without Borders, a Paris-based group, nine were killed and three went missing last year. The Committee to Protect Journalists, a similar body in New York, says that at least five have been murdered so far this year.

AFP

They were silenced

The murders are only the tip of an iceberg of intimidation. Most of this goes on in smaller cities, and most is done by the drug gangs (or their allies in the security forces). Pedro Enrique Armendares, of the Centre for Investigative Journalists in Mexico City, notes that many of the murders are “pre-emptive”: rather than reprisals for incriminating reports, they are to ensure none appears. The tactic is working. Many newspapers and television stations have stopped reporting on the drug gangs, even when they are the main story in their towns.

Juan de Dios Castro, a deputy attorney-general, says that the statistics exaggerate the threat to journalism, since some of the victims were not killed because of their jobs. Nevertheless, this month the government unveiled a bill to make crimes against journalists federal matters. Drug-trafficking is already a federal crime, so it is hard to see what practical difference the law might make.

Mr Armendares laments that Mexicans regard the disappearance of a reporter who covers drug-trafficking as normal. But Americans don't, and the United States Congress is likely to start taking a closer look at such things in return for its anti-drug aid.

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Cuba's economy

Raúl's talking cure

Oct 25th 2007 | HAVANA
From The Economist print edition

Pointers to a coming liberalisation

Get article background

“WE HAVE a system in which anything you do is either forbidden or compulsory,” complains Miguel, an academic and a member of Cuba's ruling Communist Party. “Perhaps we need to change that to become more efficient.” He notes angrily that what he earns in a month, a trainee waiter can pick up in tips in a day in the island's tourist hotels. It is a common complaint, and only one of many. But now it is Cuba's government that is encouraging everyone to grumble.

Though independent economists doubt official claims that Cuba's economy is growing at around 10% a year, they agree that it is expanding again after a decade of privation. That is mainly thanks to aid from Venezuela and trade with China. There are fewer power cuts and more buses on the streets. But wages are still below their level of 1989. Food is rationed or expensive and medicines are often in short supply. This week the education minister admitted that low pay was prompting an “exodus” of teachers from schools.

Reuters

Grumbling for the revolution

Raúl Castro, who took over as Cuba's acting president in July 2006 when his elder brother, Fidel, had intestinal surgery, seems to be aware of the popular frustration. Acknowledging that the economy needed “structural and conceptual changes”, in July he called for an “open debate” on what to do. Nothing should be off the agenda, he insisted.

The debate has taken place at local branches of the Communist Party, as well as trade unions and other mass organisations. At each meeting, a notetaker has recorded without attribution the criticisms and suggestions. Over the next two months the results will be analysed. Cuba-watchers reckon that, after a slow start, the debate has been franker and more wide-ranging than the last such exercise held in the early 1990s, after the collapse of the Soviet Union, the island's sponsor.

Apart from petty corruption and slovenly officials, the main gripes have been low pay, rising income inequality, inefficiency, waste and asphyxiating bureaucracy. Loyal Communist militants have joined ordinary people in criticising defects in the prized health and education systems, including Cuba's policy of sending some 25,000 doctors and other specialists to support Hugo Chávez's “Bolivarian Revolution” in Venezuela. (Mr Chávez pays Cuba some $3 billion-4 billion a year, partly in oil, for their services.)

How will Raúl Castro respond to all this? Unlike Fidel, he is thought to favour the course pursued by China and Vietnam, in which markets and private investment have been combined with Communist political control. Even before the debate began, government economists had been studying measures such as allowing more self-employment and private or co-operative ownership of small and medium-sized businesses, as well as reforming land tenure and freeing agricultural markets.

Under Raúl Castro the government has already been a bit more welcoming of foreign investment. He has also said that wages need to rise, though that will have to be accompanied by changes in prices and the official exchange rate.

How much will really change? The first announcements are expected by the end of December. They are

likely to include a bit more scope for private initiative and for markets and prices, but all within an economy and society still dominated by the state. Officials insist that what Fidel Castro calls the “pure poison” of “neo-liberal formulae” will not be swallowed. The official mantra is that rather than copying any foreign model, policy changes will comprise “a Cuban response to the Cuban reality”. As long as Fidel continues to hover in the background—in a recent video with Mr Chávez he seemed stronger—he may inhibit any real liberalisation.

But the direction seems clear. Even some of the dissidents on the island, such as Oscar Espinosa Chepe, an economist, foresee gradual economic liberalisation, though others are more sceptical. “A turning point has been reached,” says Anicia García, director of the University of Havana's Centre for the Study of the Cuban Economy. Most Cubans seem to think so, and even more hope so.

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Colombia

Defying the gun

Oct 25th 2007 | BOGOTÁ
From The Economist print edition

A health check for local democracy

LAST time Colombians voted for mayors and provincial governors, in 2003, some were offered little choice. In swathes of the Caribbean coastal region right-wing paramilitary groups imposed their own candidates, often by intimidating rivals into giving up, or killing those who resisted. Will the next lot of local polls, due on October 28th, be free and fair?

The signs are fairly promising. Take the department of Magdalena, on the north coast. The governor elected unopposed in 2003 is behind bars, charged with colluding with paramilitaries. This time voters can choose from six candidates spanning the political spectrum. In Colombia as a whole, there are 12% more candidates this time. True, in 11 municipalities (down from 25 last time) there is only one candidate. But a survey by *El Tiempo*, a newspaper, found that this owed more to local political tradition than intimidation.

In many areas, people are less scared than they were. That is in part a tribute to President Álvaro Uribe's "democratic security" policy. Some 31,000 paramilitaries have demobilised under a peace agreement. In addition, prosecutors and the courts have cracked down on ties between politicians and the paramilitaries (many of whom are also drug traffickers). Some 40 politicians, including national legislators (one of them Mr Uribe's cousin) as well as Magdalena's governor, are being prosecuted for such links.

Several of the small parties whose leaders face prosecution are fielding candidates, but some of these may have gone straight. There is "less armed pressure" in areas that were once paramilitary fiefs, according to Claudia López, a political scientist who has studied voting patterns in such areas.

Nevertheless, two dozen candidates have been killed in the run-up to the election. At least half were victims of the FARC, the main left-wing guerrilla group (which is also heavily involved in drugs). In the past the FARC banned voting in areas it controlled; the murders show it can no longer do so, says Ms López. In other areas there are worries about former paramilitaries having taken up arms again in criminal bands.

The opinion polls suggest a moderate left party may hang on to the capital, Bogotá, defeating Mr Uribe's candidate for mayor. But most of those who vote will do so according to local issues. Rather than a guide to the president's future prospects, the elections will be an indicator of the health of Colombia's democracy.

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Chile

Let them eat Kafka

Oct 25th 2007 | SANTIAGO
From The Economist print edition

The president enlists the literary critics

Get article background

ASK Chileans what they are reading and the answer will probably be Isabel Allende's “La Suma de los Días”, a memoir by their country's best-known living writer. If, that is, they read anything at all: in a recent survey, 45% said they never read books and 34% did so only occasionally.

Michelle Bachelet, Chile's president, wants to change that. To do so, she has come up with a scheme to give 400,000 of the poorest families a *maletín literario* or box of up to nine books each. After much pencil-chewing, a jury of literati this month selected a list of 49 works, from which officials will then choose those books they think appropriate for each family (each will get an encyclopaedia and/or a dictionary).

The list comprises fiction and poetry for both adults and children. It ranges from Chile's Ms Allende and Pablo Neruda to J.D. Salinger's “The Catcher in the Rye” and Franz Kafka's “Metamorphosis”. This is unexceptionable fare. But is the book box the best way to achieve Ms Bachelet's laudable aim?

It could help. While some older Chileans lack functional literacy or were alienated by a rigid school syllabus, younger ones may be deterred from buying books by their price. This averages $14, higher than the Latin American average and the equivalent of two weeks of bus fares to and from work in Santiago. If books were cheaper, more Chileans would read them: pirated copies sell on pavements, while a lending library that operates on the Santiago metro has been a big success. With massive orders, the government could force big discounts from publishers.

But critics see the book box as a populist gesture. “It's like dropping bank notes out of the sky,” complains Verónica Abud of La Fuente, a charity that promotes reading. “Who says that a plumber in a poor district of Santiago will actually want to read Kafka?” For less than the estimated $11m cost of the book box, La Fuente has set up 60 libraries in schools and neighbourhoods. Since only 7% of Chileans belong to a library, there is scope for plenty more.

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Pakistan's political turmoil

After the blasts

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From The Economist print edition

Getty Images

Benazir Bhutto has the sympathy of most Pakistanis; but perhaps not their votes

“THANK God she survived,” says Faqir Muhammad, a vegetable-seller with bearded gravitas, seated cross-legged before a heap of aubergines in the ancient walled city of Lahore. This is not the usual opinion of Benazir Bhutto, leader of the Pakistan People's Party (PPP), in the old quarter of Punjab's capital. It is the political base of her main rival, Nawaz Sharif. Yet Mr Muhammad's prayer for Miss Bhutto—a reference to twin suicide blasts that killed 140 people at a rally in Karachi to welcome her back from exile on October 18th—is on many Lahori lips.

A discredited former prime minister, back in Pakistan after eight years in exile because of corruption charges, Miss Bhutto has won sympathy across Pakistan—and beyond. Condoleezza Rice, America's secretary of state, Sonia Gandhi, the leader of India's ruling Congress party, and many other world leaders called to commiserate with her. With an election due by January, this flood of attention has helped persuade some PPP zealots—around 200,000 of whom were in Karachi to greet their leader—that Miss Bhutto will become prime minister for a third time. This is possible. Yet fresh twists in Pakistan's political turmoil are certain.

The most pressing doubt surrounds the terms of her homecoming. She was granted an amnesty this month by General Pervez Musharraf, Pakistan's president. In return, Miss Bhutto ordered her party not to resign from the parliament when General Musharraf got himself re-elected president by its members—in uniform, though the constitution seems to forbid it—the following day. This trade-off was a product of year-long power-sharing negotiations between Miss Bhutto and General Musharraf. As the next stage of these negotiations, Miss Bhutto is seeking guarantees that General Musharraf will not rig the election against her party, as he has done before. If the PPP proceeds to win power, it might then offer him its support. For the time being, however, both the general's re-election and the amnesty for Miss Bhutto (and other allegedly corrupt politicians and army officers) are being contested in the Supreme Court.

Whatever the judges decide, Miss Bhutto should be safe from prosecution, since the government has already shown that it does not want to press charges. In General Musharraf's case, which is expected to be decided early next month, the judges have expressed a fear that if they rule against him, he will declare martial law. So it would be surprising if they did so. Assuming they do not, General Musharraf will probably hand in his army papers in the next week or two, and be sworn in again as president on November 15th. National and provincial assemblies would be dissolved the next day. And Mr Musharraf would appoint caretaker federal and provincial governments to run the country during its election season.

A more profound uncertainty, as the global attention on Miss Bhutto may indicate, concerns Pakistan. It is violently divided and, as the current turmoil shows, lacks even the blueprint for a stable government. For

32 of its 60 years, Pakistan has been ruled by soldiers. In the intervals it has had precarious civilian administrations, including 20 civilian prime ministers in as many years. To optimists—including America, which has pushed it—a deal between General Musharraf, representing the army, and the PPP, Pakistan's biggest party, offers the best hope of ending the seesaw between military and civilian rule. At a time of dreadful insecurity—including a wave of Islamist terrorism, of which the Karachi blasts were almost certainly an example—such an arrangement, it is hoped, would offer short-term stability and promise more meaningful democracy. For many Pakistanis, including within the PPP, however, it would be a marriage of irreconcilables, doomed to collapse.

Meanwhile, with the deal in doubt, Miss Bhutto and the government are trading blows. She accuses senior members of the government and security services of being behind the blasts. Presumably facetiously, the leader of the ruling Pakistan Muslim League (Q) party, Chaudhry Shujaat Hussain, says Miss Bhutto was herself the terrorist, with the aim of drumming up sympathy. On October 23rd the PPP claimed the government had banned Miss Bhutto from leaving the country. There will be further bickering if the government goes ahead with planned restrictions (on security grounds) on political gatherings. This would not be unreasonable; besides Miss Bhutto, suicide-bombers have in recent years tried to kill Pakistan's president, prime minister and interior minister. Yet the PPP, the most effective rabble-rousing party, would suffer more than others.

This handicap might make Miss Bhutto even more willing to do a deal with the general. Despite winning sympathy over the blasts in Karachi, the PPP probably cannot win an outright majority. It would also struggle to form a coalition with other opposition parties, most of which are incensed by Miss Bhutto's dealings with General Musharraf. On the other hand, his loyal supporter, PML (Q), almost certainly cannot secure a majority either. So the general seems to have two options. Either he could try to recruit Mr Sharif's party, the Pakistan Muslim League (N), perhaps by co-opting Mr Sharif's brother and political ally, Shahbaz, to line up with the PML (Q). Or he could try to recruit the PPP.

The second outcome is marginally more likely. Mr Sharif is a bitter enemy of General Musharraf; the general toppled him in a coup in 1999 and turfed him out of Pakistan, for a second time, last month. He is currently in Saudi Arabia, while Shahbaz Sharif is said to have spurned the general's advances. And yet an alliance between the PPP and PML (Q), with the prime ministership going to the party that won the election, would also be rancorous. Mr Hussain's father was a political enemy of Zulfikar Ali Bhutto—Miss Bhutto's father, a former prime minister, who was hanged. He was murdered by followers of Miss Bhutto's brother, Murtaza, who was himself shot dead in 1996, during Miss Bhutto's second government.

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Afghanistan's Taliban

War without end

Oct 25th 2007 | KABUL
From The Economist print edition

Not winning, but not losing either

THE first flakes of snow are settling in the high passes along Afghanistan's eastern border. Within a few weeks the infiltration routes from Pakistan will be blocked to the Taliban, and the upland areas of Afghanistan will become unsuited to guerrilla warfare until the spring thaw.

Despite the Taliban's bold predictions of an apocalyptic “spring offensive” earlier this year, the NATO commanders leading the fight against them feel they were on the front foot during the summer. Since January almost 6,000 people have been killed, a 50% increase on last year. They included 200 NATO soldiers and more than 3,000 alleged Talibs. Insurgent violence is up by 20% on 2006. NATO claims this is largely because its forces have pushed into areas formerly held by the Taliban.

Nonetheless, as NATO's defence ministers gathered this week in Noordwijk in the Netherlands, few observers doubt that the Afghan insurgency has years to run. The Taliban seem to have enough recruits, as well as a refuge and logistical base in Pakistan's lawless tribal areas. They also have enough funds, an estimated 40% coming from the drug trade.

“The only way the Taliban can be defeated is with strong Afghan government, strong Afghan security forces and a wedge driven between the insurgents and the people,” says NATO's commander in Afghanistan, General Dan McNeill. He accepts that NATO's role is that of stopgap, as billions of dollars go into building the Afghan security forces.

An estimated 20-30% of the population in the south support the Taliban. The number of Taliban fighters lies between 6,000 and 20,000. Some 6,000 Taliban have been reported killed since 2005, with no sign that the loss has dented the insurgents' capability. Western diplomats generally accept that killing Taliban fighters will not, by itself, end the insurgency.

Suicide-bombings were all but unknown in Afghanistan until 2005. This year has seen more than 120. Roadside bombings are also increasing, as the Taliban adopt the tactics that have worked for Iraqi insurgents. NATO commanders claim this is a sign of desperation. British and American special forces have focused on attacking the Taliban leadership. In May they killed the Taliban's ground commander in the south, Mullah Dadullah Akhund. By one estimate, more than 50 mid-level commanders have been killed in Helmand province alone.

Local tribal elders say that the Taliban has taken severe punishment in the south. In Helmand there are reports of a lack of local willingness to fight for the Taliban. There is much talk of prising away “moderate Taliban” through negotiation. But Taliban fighters are now appearing in previously placid provinces such as Herat, Wardak and Badghis. General McNeill admits that NATO's nearly 35,000 troops are not enough to

take and hold all parts of the country. In Noordwijk, a number of countries responded to America's plea for more soldiers, not so much for combat but to help train Afghan forces.

The insurgency now has more clearly the form of a single, loosely co-ordinated insurrection spanning western Pakistan and southern and eastern Afghanistan. NATO is publicly divided. The Taliban, too, are fragmented. Far from being the monolithic Islamists they were in 2001, they now span various groups with differing motivations. Alongside the diehard *madrassa*-trained Talibs are growing numbers of foreigners with al-Qaeda links. Less committed, so-called “tier-2” fighters are drawn to fight for many reasons: unemployment; to protect illegal opium crops; or to obey tribal loyalties.

Local politics also infects the insurgency. In Helmand, for instance, the Itzakzai tribe, feeling excluded from power since 2001, are big Taliban supporters. Many Afghans in the south would support any force offering a real hope of security and justice. On those counts, neither the Taliban nor the corruption-plagued Afghan government and its Western backers have yet made a convincing case.

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India's nuclear co-operation agreement

On the blink

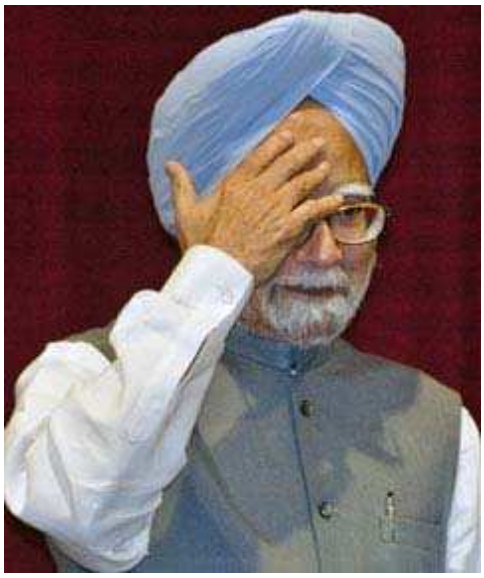
Oct 25th 2007 | DELHI
From The Economist print edition

Eyeball to eyeball with the Communists

SINCE he got the job in 2004, Manmohan Singh has never been a strong prime minister of India. He was put in place at the behest of Sonia Gandhi, leader of the Congress party and the coalition it leads, the United Progressive Alliance (UPA). Mrs Gandhi is broadly in charge, but the UPA depends on Communist-led leftist parties for a parliamentary majority. This gives the Communists a pivotal role. Though there is nothing undemocratic about this, it has upset the UPA's economic policies and now threatens a cherished deal on civilian nuclear co-operation with America.

As Mr Singh told an audience of visitors from McKinsey, a management consultancy, on October 23rd, competitive politics and fractured mandates have made it "difficult sometimes for us to do what is manifestly obvious". That statement had particular resonance in a week when it became clear that the nuclear deal, which Mr Singh would argue is a "manifestly obvious" thing to do, has little chance of coming into force.

AP



A manifestly obvious headache

America is furious. For more than two years George Bush has personally pushed the agreement. Improving relations with India has been one of his chief foreign-policy goals, and the controversial nuclear deal has been his main instrument. This week his administration said it would still like to get the agreement to Congress this year. There is next to no hope of that.

The deal would end a 30-year-old international ban on India's access to peaceful nuclear and other sensitive technologies, including urgently needed uranium for existing nuclear power stations. It would transform America-India relations—and open the door to American companies for lucrative defence, nuclear and other contracts. India's Communists do not like this. They do not want India close to America in political, economic or business terms, and also suspect that a future American government would undermine the deal.

In August the left's opposition, simmering for two years, boiled over. It became a confrontation threatening the government's survival. Mr Singh and Mrs Gandhi have blinked first. On October 12th, without forewarning America, they indicated that they would rather shelve the deal than risk a general election.

With hindsight, they may regret not having called the Communists' bluff in August and sought an immediate general election. Congress would have benefited in the polls from the rudderless confusion of the main opposition party, the Bharatiya Janata Party (BJP). If returned to power, it could then have revived the nuclear deal before the American presidential election in November next year. America might well have been accommodating. But neither Mrs Gandhi nor Mr Singh had the nerve to take such a gamble against the wishes of their coalition partners. Most of these want to cling to their power and perks until nearer May 2009, the latest an election can be held. And indeed the Communists also want to avoid an early election because they might fare badly.

So there is deadlock. The deal cannot move ahead because of the Communists' opposition, and the government is not falling because no one is yet triggering a general election. The Communists and the UPA will resume formal talks on November 16th. A spring election is being widely forecast, though that would be too late to revive the deal before the American elections. So the agreement Mr Singh negotiated with America seems likely to be sacrificed by a government mainly interested in staying in power. Mr Singh recently seemed poised to resign. But he now seems to shrink from this "manifestly obvious"

response to his predicament.

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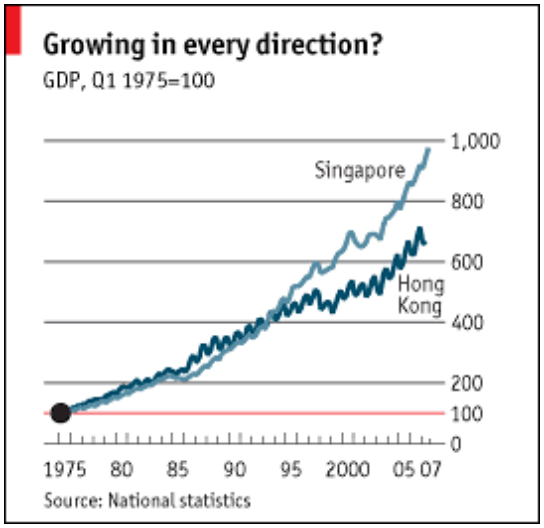
Singapore's economy

High-flyer

Oct 25th 2007 | SINGAPORE
From The Economist print edition

Booming, bustling and bursting at the seams



THE strong global economic tide has lifted the boats of most South-East Asian countries, but perhaps the most impressive performer is Singapore. Its national income per head is already higher than Spain's and New Zealand's, and five times that of its nearest neighbour, Malaysia. Yet in the year to the third quarter, its economy grew by 9.4%. Singapore is “a developed country that grows at developing-country rates,” as Robert Prior-Wandesforde, an economist at HSBC, puts it. Since the 1997 Asian crisis it has fared markedly better than its rival, Hong Kong (see chart).

The signs of a boom are unmissable. The shopping malls along Orchard Road are bustling. Fancy hotels are full of wealthy tourists despite cranking up their room rates. Marina Bay, by the financial district, is a forest of cranes as a $3.6 billion casino resort goes up. The Singapore Flyer, a giant Ferris wheel, looks down on the vast expanse of building site. Office rents have risen by 50% in the past year, while the price of homes is up by 28%.

Any downturn in America, which buys a fair chunk of Singapore's exports, is bound to have an effect. But, reckons Mr Prior-Wandesforde, a slackening of foreign demand might be just what Singapore needs to avoid the only danger to its sizzling economy: overheating. Inflation hit a 12-year high of 2.9% in the year to August, though it fell to 2.7% in September.

Singapore has sustained its growth through unusually clean and efficient government, and by having one of the world's best education systems. While Hong Kong has shifted most of its factories to its southern China hinterland, in Singapore manufacturing still accounts for around 25% of GDP. However, anticipating the competitive threat from China, it has moved up the value chain, away from low-end electronics, and found lucrative new niches. Its marine-engineering and biomedical firms are growing at around 40% annually. Its finance industry has cornered the regional market in private banking for the wealthy.

Singapore's boom has already sucked in millions of immigrants: new figures show that, as in London, almost one-third of residents were born in other countries. To keep the economy growing and reduce pressure for wage rises, the government is keen to admit more foreigners: its development plans assume the population will grow from 4.7m now to 6.5m in 40-50 years' time, mostly by immigration. Many of the new immigrants come from India and China. They are wowed by Singapore's order and prosperity, notes Sinapan Samydorai of the Think Centre, a think-tank. They also tend to be conservative-minded and thus are likely to embrace Singapore's unique mixture of free-market economics and strait-laced politics.

There have been worries that lower-paid Singaporeans are missing out on the boom. Indeed, until recently, consumer spending was lacklustre. But it has gathered pace in the past few months and, with employment and wages each growing at around 9% annually, there is plenty of domestic spending power to help the economy survive any export downturn.

Though its Gini coefficient, a measure of income disparity, suggests Singapore is a rather unequal place, there are few visible signs of poverty. Most Singaporeans live in massive, publicly built housing projects that are freshly painted and surrounded by neat, litter-free gardens. No graffiti or menacing youngsters here. Most residents have bought their apartments and are seeing their value soar.

Adval Brand Group

Singapore still has plenty of green space it could build on. But the plan, says Lim Eng Hwee, a senior planning official, is to keep this and find other ways to accommodate the growth in population and new businesses. One is to continue reclaiming land from the sea. Since independence Singapore's land area has grown from under 600 square kilometres (230 square miles) to around 700. Mr Lim says it could be increased to about 760 sq km by closing gaps between Singapore's main island and lesser ones. But this might prompt more envious grumbles from Malaysia and from Indonesia, another close neighbour, which has become reluctant to sell Singapore sand for its reclamation projects. Like Malaysia, Indonesia feigns environmental concerns about them.

Future wheel of fortune

If the scope for extending sideways is limited, one solution is to stretch upwards—ever taller skyscrapers are being built, with financial incentives to encourage owners of low-rise apartments to make way for them. But also downwards: Singapore's big oil-storage business, which takes up much land, is being shifted to underground caverns. Roads, which use up 12% of Singapore's land area, will increasingly be put below ground too. Then perhaps concert halls, sports stadiums—who knows? Such schemes are hugely costly but Singapore has massive financial reserves for its size. In creating enough space to continue its breakneck expansion, money will be no object.

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Kazakhstan

Breadline blues

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Just like the bad old days

Get article background

BREAD is more than a staple food in Kazakhstan. It is part of every meal. For many of the poor, it may even be the main meal. It is also a symbol of hospitality. When President Nursultan Nazarbayev tours the country, he is always greeted by young women in traditional dress offering him bread and salt.

So when the price of bread goes up or loaves vanish from the shelves altogether, as has happened this month, Kazakhs get alarmed. When other basic food items become dearer too, the public mood plummets. Bread prices have gone up by 30%, and the price of sugar, flour and sunflower oil doubled or even tripled within days recently. This at once recalled the dark days of hyperinflation during the post-Soviet years of the early 1990s. People's instinctive reaction was to start hoarding. By October 20th they had emptied shops in the capital, Astana, and other northern cities.

This has been a huge embarrassment for the Kazakh leadership. It has coincided with bank troubles that had led Standard & Poor's, a credit-rating agency, to downgrade Kazakhstan's sovereign debt on October 8th. A home-made food crisis is politically far more dangerous to the country's authoritarian leadership than a financial meltdown, which can be partly blamed on wobbly international markets. The elderly complain that even during the harsh years under Joseph Stalin they always had bread. Veterans of the Soviet war against Afghanistan want their pensions tripled. Even the comatose opposition, invisible after failing to win a single seat in parliamentary elections in August, staged a well-attended demonstration against price rises in Almaty on October 20th.

The government has moved into crisis mode and taken a number of measures. It was quick to find a scapegoat: “speculators” who were allegedly fixing prices—ie, the traders supplying markets and shops. But the World Bank's chief economist for Kazakhstan, John Litwack, believes the problem is simply the result of increased world-market prices and panic among the population, rather than conspiracy by a monopoly or cartel. Neighbouring Russia has imposed price controls on basic foods.

The Kazakh ministry of industry and trade, however, has been told to devise a plan for buying several months-worth of basic food supplies to stabilise prices in the future. This week exports of sunflower oil were banned. Karim Masimov, the prime minister, inspected shops in Astana and declared the shortages over. Even so, people are angrily questioning the government's role. If a one-party parliament, a record grain harvest and the prospect of doubling oil production by 2015 cannot help prevent such price vagaries, what can?

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China's space programme

Ni hao, Moon

Oct 25th 2007 | BEIJING
From The Economist print edition

It is not a race, so long as China makes sure China gets there first

HU JINTAO, China's Communist Party leader, could hardly have asked for such perfect timing. Or maybe he did. Scarcely had the party finished its ritual “election” of him for another five years, than a Chinese rocket on October 24th propelled a satellite on China's—and the developing world's—first foray to the moon.

Mr Hu must have watched the launch from Xichang in south-western China with bated breath. Only last month, Japan became the first Asian nation to send a satellite to orbit the moon. China had wanted to send its satellite, *Chang'e I*, up in April but unspecified technical difficulties prevented that. The delay provided a chance for the launch to coincide with Mr Hu's political triumph (never in any doubt). Failure this time might even have put China behind India, which is hoping to launch a similar orbiter next year (as is America). Not since the 1970s has the moon received so much exploratory attention.

AFP

The sky's no longer the limit

Chang'e I still has tricky manoeuvres to perform before China can relax. After orbiting earth for a few days, its thrusters will be fired to send it to the moon. The challenge will be getting it into orbit around the moon without it shooting off into space or crashing. Some of the early Soviet and American attempts to achieve the same feat in the 1950s and 1960s ended in disaster. *Chang'e I* is due to enter lunar orbit on November 5th and thereafter begin its year-long task of mapping the moon in 3D, surveying its surface minerals and beaming back patriotic songs.

Back on earth, the party maintained its usual secrecy about the process involved in an extensive shuffle of the 25-strong Politburo. The changes were announced on October 22nd at the end of its five-yearly congress. Mr Hu briefly paraded the Politburo's new nine-man Standing Committee, the apex of power, before journalists. Two of its four new members, Xi Jinping (party chief of Shanghai) and Li Keqiang (party chief of Liaoning province), are seen as rival heirs-apparent to Mr Hu, who is likely to step down in 2012. They stood stiffly, took no questions and walked out in single file. Mr Hu said nothing about those they replaced, including his powerful vice-president, Zeng Qinghong.

China was somewhat more open over the launch of *Chang'e I*. Unlike some of its earlier space endeavours, the event on October 24th was broadcast live. China wants to show that it has emerged as an independent space power. *Chang'e I* is intended to be the first in a series of missions that will eventually take a Chinese astronaut to the moon. These include sending an unmanned rover to the lunar surface as well as sending a probe to collect surface samples and return them to earth.

The big question is when China will send a man there. Scientists involved have cited various years, usually between 2020 and 2024. In September Michael Griffin, the head of America's space agency, NASA, said he thought the Chinese would get to the moon before America returns. They have set their own target of 2020 for a manned landing. “I think when that happens, Americans will not like it. But they will just have to not like it,” he said.

Any immediate prospects for space co-operation between America and China have dimmed since China's successful test in January of an anti-satellite missile. In America, this was widely seen as a threat to the country's dominance of space. Meanwhile China is forging closer space ties with Russia, which in 2009 is due to send a Chinese satellite to Mars.

But Vincent Sabathier of the Center for Strategic and International Studies in Washington, DC, says China

is being careful not to rile America by talking of a space race. Despite Mr Griffin's remarks, he says NASA still thinks it has a 20-year lead in space technology. Jiao Weixin of Peking University says China would not have the technical ability to put a man on the moon for another 20 years, well beyond America's target return date. And it would be very expensive. “You can't just say that because America landed on the moon in the 1960s, we ought to do it too,” says Mr Jiao. That, however, is the general idea.

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Chinese historiography

Textbook case

Oct 25th 2007 | BEIJING
From The Economist print edition

Study Marxism, Leninism, Mao Zedong's thought—and Bill Gates

“CLASSES struggle, some classes triumph, others are eliminated.” Such, wrote Mao Zedong, is history. Such, too, was history teaching. In the 1970s it was not uncommon for a teacher to begin a lesson by telling students to take a ruler, turn to a page of their textbook, lay the ruler along the side of the page...and tear it out. Now again, in many parts of China, textbooks are being rewritten. But this time the aim is to make them livelier and less dogmatic. Some changes are raising hackles.

In September last year, the introduction of a new history textbook in Shanghai's senior secondary schools caused a storm because of its cursory treatment of Mao himself (Bill Gates and J.P. Morgan were better served). It also failed to dwell—as Chinese history textbooks ritually do—on the sufferings of pre-Communist Chinese at the hands of foreign imperialists. A group of history scholars in Beijing reportedly sent a letter to the government saying the book contained serious errors in its political orientation.

The Chinese press has now dubbed the book one of the shortest-lived in the history of Chinese textbooks. In May education officials in Shanghai decided to withdraw it. Since September a new book hewing closer to the old style has replaced it.

The controversy, however, has not abated. Some of China's feistier journals, despite being state-owned, have criticised Shanghai's decision. *China Newsweek*, a magazine controlled by China's second-largest news agency, called it “rash”. It said the public as well as scholars should be more tolerant of teaching materials that deviated from their set opinions. A weekend newspaper, *Southern Metropolis Weekly*, quoted a scholar as saying that Chinese children had been fed a “superficial” and “problematic” view of history and this “laughable” approach had to change.

Nor has China abandoned efforts to enliven textbooks and reduce rote-learning. In September some schools in Beijing (to the consternation of media commentators) introduced a new curriculum for senior secondary students that makes the study of the first and second world wars optional. Instead of plodding through history, dynasty by dynasty, textbooks are now arranged by themes such as politics and economics.

Changes in the Chinese-language curriculum have caused a stir too. In many Beijing schools this year, “The Story of Ah Q”, a gloomy allegorical novella written by Lu Xun in 1921 and long beloved by China's Communists for its damning insights into the “feudal” thinking of the time, has been dropped. New to the set texts is a martial-arts novel by a Hong Kong writer, Louis Cha. At least schoolchildren will be happy.

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Congo

Alarm drums

Oct 25th 2007 | GOMA AND KINSHASA
From The Economist print edition

The dangers of Congo and Rwanda, Hutus and Tutsis, going back to war

WITH gun-battles almost every day, and 370,000-plus refugees fleeing from fighting in eastern Congo's long-suffering North Kivu province in the past ten months, fear of a full-blown war is fast growing. On October 17th, Congo's president, Joseph Kabila, announced he had ordered the army to prepare for an all-out offensive against Laurent Nkunda, the self-styled saviour of Congo's Tutsi minority, whom the government accuses of war crimes.

In August a peace deal between the two sides broke down, resulting in a week of heavy fighting. When Mr Nkunda broke a subsequent UN-imposed ceasefire, the Congolese army took the opportunity to push Mr Nkunda's fighters out of key positions near North Kivu's capital, Goma. Bolstered by this rare victory, Mr Kabila, who has refused to negotiate directly with Mr Nkunda, now seems bent on crushing the rebellion by force by the end of the year. “Have we ruled out now the possibility of a negotiated solution? I don't know what a negotiated solution is,” says the president.

But with wounds still raw from Congo's war that lasted from 1998 to 2003, when eight countries got involved at a cost of 4m Congolese dead, not everyone favours a military option. At least not yet. President George Bush is expected to greet Mr Kabila soon at the White House, but the Americans would rather not host a leader about to launch a bloody ethnic conflict. Diplomatic efforts seem to have delayed the impending offensive, at least until after Mr Kabila's state visit. America is also trying to persuade Mr Nkunda to abandon his rebellion and perhaps go into exile.

America's diplomatic push is partly because it has close relations with Congo's neighbour and long-time foe, Rwanda. The continued presence in eastern Congo of Rwandan Hutu rebels, some of whom participated in 1994 in the genocide of Rwanda's Tutsi minority, has been at the root of much of the instability in the Great Lakes region for more than a decade. Rwanda has twice invaded Congo, in 1996 and 1998, under the pretext of wiping out the rebels and protecting ethnic Tutsis on both sides of the border. Despite repeated promises to do so, Congo has done little to pursue the Hutu rebels and push them back into Rwanda, choosing instead to focus its attention on Mr Nkunda's three-year-old Tutsi rebellion. The Americans want the Nkunda issue settled so that Congo can concentrate on dealing with the Hutu rebels, now rebranded as the Democratic Forces for the Liberation of Rwanda.

Congo has accused Rwanda of sending its soldiers across the border again, this time to shore up Mr Nkunda. The Rwandans are worried that Congo's government has started to back the Hutu rebels. If true, America would almost certainly withdraw its diplomatic support for Congo's military operations in

the east. It would also provide a *casus belli* for Rwanda to invade yet again. If that happened, a new round of killing between Hutus and Tutsis could start, beyond the control of Congo, Rwanda or America.

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South Africa

Rugby and the rainbow nation

Oct 25th 2007 | JOHANNESBURG AND PARIS
From The Economist print edition

The argument over how to make teams more multiracial and still win

Get article background

DESPITE the wave of national pride shared by South Africans of all colours as they greeted their rugby team on its return from winning the world cup in France, the raw issue of race in sport, as in other aspects of life in post-apartheid South Africa, is sure to persist. President Thabo Mbeki made it clear that he shared the rainbow nation's joy, even though only two of the team's players were non-white, both of them being Coloured, as mixed-race South Africans are known. Mr Mbeki even called for the coach, Jake White, to stay on, though reports have buzzed around that he may look for a job elsewhere when his contract expires; he is said to be fed up with political interference. Voices in the ruling African National Congress have called for a more “transformative” approach to team selection: ie, more non-whites should be picked.

Reuters

Habana flies across the colour bar

Along with cricket, rugby remains a favourite sport of most white South Africans, whereas most of their black compatriots prefer football. Rugby is still particularly popular among Afrikaners, white South Africans of mainly Dutch descent who were the bastion of support for the ideology of segregation and racial domination; of the 32 players in the victorious world cup squad (not just those that actually played in the final game), only four were whites of English-speaking stock, five were Coloured and just one was a black African.

Nelson Mandela's gracious support for the Springboks, as the national team is known, when they last won the cup, on home soil, in 1995, melted the hearts of white South Africa, even of the most diehard white racists. But a feeling still lingers that rugby has yet to shed its image as a predominantly white sport that long symbolised apartheid at its macho worst.

So pressure on the sport's governing body and coaches to ensure that the sport better mirrors the country's racial make-up is intense. (Of South Africa's 48m people, about 38m are black, 4m-plus are white, almost as many are Coloured and about 600,000 are of Asian descent.) Mandatory racial quotas in professional rugby at the top level were dropped in 2004.

But Butana Komphela, who heads Parliament's sports committee, said before the cup that unless the national team became more mixed, its players should have their passports taken away—an idea the government quickly shot down. A bill passed earlier this year gives the sports minister power to intervene in sports disputes and to issue guidelines to speed up integration. The minister, Makhenkesi Stofile, has repeatedly complained about the lack of blacks in the national rugby team.

But since the cup victory, ministers have again insisted that racial quotas will not be imposed. The South African Institute of Race Relations says that making sports more representative is important but the national teams' success, more than their racial make-up, is the real unifier.

It is accepted that the best long-term policy for producing blacker sides is to give black children better sports facilities at school. On this score, Mr Mbeki admits that his government has not done enough. In formerly white state schools (which still have the best facilities), rugby pitches and good coaches abound. Both are still rare in mainly black areas. (Bryan Habana, a lightning-quick winger who was the star of the tournament and has become a hero to South Africans of all hues, comes from a prosperous Coloured family and was educated at a famous and predominantly white school in Johannesburg.)

Jonathan Stones, who runs SA Rugby, the rugby union's commercial arm, says there is a lot of rugby talent among young blacks, and that school and junior national teams are more representative than the senior ones. But a lack of organised support means that many such players get lost during the transition from school to professional rugby. A rugby academy is to open in 2009 in the Eastern Cape, a province with a long tradition of black rugby. That may make up a bit of the difference—and help produce more of a rainbow national team in the not-too-distant future.

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Africa

A politicians' Oscar

Oct 25th 2007
From The Economist print edition

A new prize to reward honest and democratic leaders

JOAQUIM CHISSANO, a former president of Mozambique, has got a nice top-up to his pension by winning the first Mo Ibrahim Prize for Achievement in African Leadership. In fact, it may be the largest prize in the world, worth an initial $5m over ten years, then $200,000 a year thereafter. And Mr Chissano won it as much for what he didn't do as for what he did.

The prize, dreamed up by Mr Ibrahim, a Sudanese-born British businessman who sold his mobile-phone company, Celtel, to a Kuwait-based firm, MTC, two years ago for $3.4 billion (£1.8 billion), is to encourage good leadership and governance in a continent that he thinks has been blighted by dictators and crooks for too long. The prize's magnitude may reflect the depth of the problem. The judges, who include Mary Robinson, a former Irish president, and Kofi Annan, a former UN chief, do not expect to award it every year.

AFP

What will I spend it on?

As it could be given only to heads of state who left office in the past three years, the field was pretty small, with 13 names to consider. Mr Chissano was the obvious choice. The only man who might have run him close is a former president of Tanzania, Benjamin Mkapa.

Mr Chissano was praised by the judges for setting a good example by retiring when his country's constitution did not require him to, which should rule out Nigeria's Olusegun Obasanjo, Uganda's Yoweri Museveni and Zimbabwe's Robert Mugabe for future awards. He was also lauded for ending Mozambique's long civil war and restoring democracy. Might that encourage other leaders, such as Sudan's Omar al-Bashir and Congo's Joseph Kabila, to do the same? Now that would really make Mr Ibrahim's prize value for money.

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Iran

Who's the boss?

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The tea leaves of a resignation

IT IS seldom clear precisely who calls the shots in Iran. The resignation of Ali Larijani, secretary of the national security council and Iran's chief nuclear negotiator for the past two years, has stirred a flurry of speculation about the direction of Iranian policy, at home and abroad. In truth, no one outside the inner caucus of the country's leadership knows why he went or what his departure means for policy.

Mr Larijani, now 49, is widely viewed as clever, pragmatic and increasingly uncomfortable with the belligerence of Iran's populist president, Mahmoud Ahmadinejad. But he is no softy, no secularist and no liberal. The son and son-in-law of powerful ayatollahs, he ran the state broadcaster for ten years until 2004 and was noted for trying to expunge foreign influence from the airwaves. He had earlier been minister of culture and Islamic guidance. Though appointed to run the National Security Council by the president, he has long been considered close to the “supreme leader”, Ali Khamenei, who has the last word in every aspect of Iranian policy—and therefore plainly outranks and outguns President Ahmedinejad, who nonetheless captures more of the world's fearful attention.

AFP

One in the eye for Larijani

In the past two years, the European diplomats who have been negotiating with Mr Larijani over Iran's nuclear plans feel he is flexible up to a point—and certainly worth trying to convince that the merits of a “grand bargain” (whereby Iran would get financial and trade incentives as well as help in developing nuclear power for civil purposes) outweigh the risks of building a nuclear bomb that have already led to UN sanctions and could even lead to war.

In any event, Mr Larijani has sounded frustrated by the mood of rigidity and bellicosity in his president's office, though he was happy to keep everyone talking in places such as the UN while Iran continued to enrich its uranium. An Iranian news agency says he had often offered to resign before. The president may be tightening his grip on the nuclear portfolio. He and Mr Larijani are thought to have repeatedly clashed. When the president declared recently at the UN that the nuclear dossier was “closed”, Mr Larijani's job plainly began to look irrelevant.

Moreover, the background of his replacement, Saeed Jalili, has alarmed the Europeans (Britain, France and Germany) who have been at the forefront of negotiations with Iran. A former head of the department for America and Europe in the foreign ministry, he is a close friend and ideological ally of Mr Ahmadinejad and has echoed his refrain that there is really nothing to negotiate about.

But the most notable sign of discord among Iranian policymakers was a letter signed by no fewer than 183 out of parliament's 290 members, praising Mr Larijani in what was widely seen as a lament for his departure. Mr Khamenei's foreign-policy adviser, Ali Akbar Velayati, who was foreign minister for 16 years until 1997, also publicly regretted Mr Larijani's demise—and may well have been expressing his boss's sentiments.

Plainly, Iran's leadership is not at one. The reformers, once led by Muhammad Khatami, who was president from 1997 to 2005, seem demoralised and weak. But the conservatives look increasingly divided between the radicals, led by Mr Ahmadinejad, and more pragmatic figures, such as Mr Larijani. The president is becoming unpopular, largely because he has failed to improve the material lot of the poor who elected him and because his belligerence over the nuclear issue has isolated Iran in the world and made Iranians frightened of the prospect of being bombed. According to one official poll, half of those who voted for him in 2005 would not do so again.

The big question is the state of relations between president and supreme leader. Does their possible disagreement, at least over the style of nuclear diplomacy, mean that Mr Khamenei is moving towards a more flexible negotiating stance—and may even be open to reform in other spheres too? “In terms of style,” muses Karim Sadjadpour, at New York's Carnegie Endowment for International Peace, “Khamenei is the new Khatami. But I think Khamenei's vision for Iran is very similar to the president's.”

It is being aired that Mr Khamenei's friends plan to replace Mr Ahmadinejad when his term ends in 2009—perhaps with Mr Larijani. But that may be hard. Mr Larijani bid for the post before, in 2005, and got a paltry 6% of the vote. Mr Ahmadinejad may jangle nerves for quite a while yet.

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Iraq

They say the Mahdi is coming back

Oct 25th 2007 | DAMASCUS
From The Economist print edition

Why Basra's Shias think their hidden imam will soon return

“I HAVE this question for you,” says Abu Ahmed, a businessman with a grey beard from Iraq's southern city of Basra. “Why did the British and foreign forces come to Iraq? Didn't Bush and Blair invade to stop the Mahdi from winning power?” It is unlikely that either George Bush or Tony Blair, as they prepared for war, had heard of the Mahdi—the millennial figure who Shia Muslims believe will come with the Messiah to set up a just Islamist government at the end of the world. Shias, a large majority in Basra, believe that the returning Mahdi will be their 12th imam, Muhammad bin Hassan, who was born in 868AD. They say he never died but was hidden from human view, in “occultation”; he will reappear to rescue his people at a time of unprecedented calamity, torture and persecution—ie, now.

The businessman says the invasion was a deliberate attempt to cause so much chaos that the Mahdi's return would be hidden from the world's gaze. “America and Britain want to destroy Iraq and control it,” he says. “We see proof every day. Nothing has been built in four years. We've lost everything—our security, our jobs, our country.” He blames the British, who have overseen Iraq's southern zone, and the Americans for sowing sectarian hatred. British soldiers defaced Sunni and Shia mosques at night, he says, in order to provoke clashes between the two groups. The Americans, he says, secretly brought al-Qaeda fighters into Iraq in containers and gave them money and weapons.

Many Basrawis use the language of apocalypse to describe the rival Shia parties and their militias (the biggest calling itself the Mahdi Army) that are struggling for control of their city. The police force, set up by the British, is infiltrated by the militias and involved in crime. Some Basra people say the clashes, assassinations, kidnappings, the daily threat of violence and the enforcement of a rigid Islamist code of conduct amount to a “Shia Talibanisation”, with music and wedding parties banned and huge billboards warning women against venturing outside unveiled.

“We live a half-life in Basra,” says a university teacher. “There's no space for life, no parks, theatres, cinemas or space for freedom. Civil and political activities are controlled. When you go outside, the fear is inside you that you may be followed and targeted. We're living in a nightmare.”

Many Basra people blame the British for their plight but still say that their rapid withdrawal would lead to outright war between the militias. “We have a saying”, says another academic, “that a just non-Muslim ruler is better than a Muslim tyrant.” The British invaders, some Basrawis argue, could have won people over if they had showed a willingness to support the hidden Mahdi. “One of our traditions says that most of those standing against him will be Muslims and most of his followers will be from the Christian community.”

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Poland

Common sense victorious

Oct 25th 2007 | WARSAW
From The Economist print edition

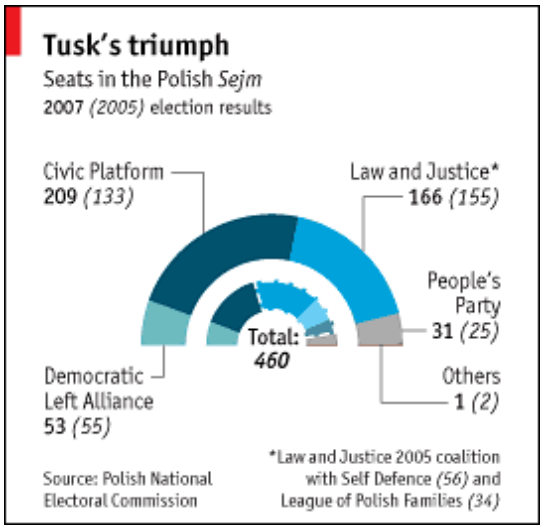
AFP

The election returns more predictable politicians—and brings relief in Europe

Get article background

THE era of the terrible twins is over. That is the upshot of the election on October 21st in which the ruling Law and Justice party, a populist and nationalist outfit, was swept aside by a more moderate and pro-European party, Civic Platform. On the highest turnout since the collapse of communism in 1989, almost 54% of Poles voted, including for the first time large numbers from the diaspora in western Europe. Civic Platform, under its leader, Donald Tusk (above), polled just over 41%, winning 209 seats in the 460-member lower house of parliament, an increase of 76 seats on the 2005 elections (see chart).

Law and Justice, led by the outgoing prime minister, Jaroslaw Kaczynski, polled more votes than last time and even increased its seats by 11, thanks to the demise of two small populist parties that had been its on-off allies in the unstable governing coalition of the past two years. Mr Kaczynski's brother, Lech, remains president until 2010, and may try to use various delaying powers to hamper the new government. But his veto can be overruled by a three-fifths vote in a quorate session of the lower house. With only 166 seats, Law and Justice cannot block that.



The result was a surprise. For most of the campaign, Civic Platform had been lagging badly. The government seemed to have made the election a referendum about corruption, one of Poland's biggest problems in the post-communist era. That seemed to polarise opinion successfully: only the austere Mr Kaczynski and his zealous corruption-busters stood for change. Opposing them meant defending the sleazy practices of the past. A strong dose of social conservatism on issues such as homosexuality and abortion, though it appalled liberal-minded, middle-class opinion in the cities, went down well with the many traditionalist rural voters.

The alarm and contempt with which the Kaczynskis were viewed abroad seemed to make little impact. Prickly, monoglot, untravelled and old-fashioned (neither uses a computer and Jaroslaw does not even have his own bank account), they embodied and exploited the inferiority complex felt by many Poles.

But Law and Justice overdid it. The high-handed approach of the publicity-loving justice minister, Zbigniew Ziobro, and the appointment of a close Kaczynski political ally, Antoni Macierewicz, as the head of a new military counter-intelligence service caused widespread queasiness in the country. Coupled with a highly partisan approach to top appointments in supposedly neutral institutions such as public broadcasting, the Kaczynski way of doing things risked comparison with Vladimir Putin's authoritarian regime in Russia.

Such fears were overdone. Polish democracy may have been bruised by the Kaczynski era, but it was not in danger. Voters were unconvinced by the Kaczynskis' sometimes hysterical claims of the dangers posed by the corrupt overlap of ex-spooks and ex-communists. The use of sometimes primitive and xenophobic language prompted younger, better-educated Poles, previously apathetic about domestic politics, to vote in large numbers.

The turning-point of the campaign was the prime minister's humiliation by Mr Tusk in a televised debate. Mr Tusk used humour, calmness and command of the facts to flatten Mr Kaczynski, allegedly flu-ridden, who came across as bombastic and waffly. Mr Tusk highlighted Law and Justice's weakness on economics, such as an unfulfilled pledge to build 3m new homes. He also pointed out that 2m Poles had gone to seek work abroad.

Law and Justice then made matters worse by overplaying their strongest card: anti-corruption. Earlier in the campaign, police had arrested a Civic Platform parliamentary deputy, Beata Sawicka, in a sting operation (she admits doing wrong, but accuses the government of acting unfairly). Her party immediately sacked her. But two weeks later the powerful anti-corruption agency set up by Law and Justice held a sensational press conference to show a film, shot secretly, of Ms Sawicka apparently taking a bribe. That seemed to have nothing to do with the rule of law and everything to do with the election campaign. When Ms Sawicka held a press conference the next day, during which she broke down in tears, Mr Kaczynski commented that the opposition was trying to use a weeping woman to win the election. The episode symbolised Law and Justice's worst side: petty, vindictive and crass.

On many issues, Civic Platform and Law and Justice overlap. Both have their roots in the anti-communist dissident movement; both emphasise the importance of the Catholic church. The fundamental difference is in their attitude to the painful economic changes of the 1990s. Law and Justice represents the losers from that era; Civic Platform stands for those who did well out of it. The biggest difference now will be in the style of government. Civic Platform prides itself on its international credentials and competence. How much of that translates into real reform at home remains to be seen.

But foreign policy will certainly be different. Mr Tusk wants Polish troops pulled out of Iraq, sooner rather than later. Under the likely foreign minister, Oxford-educated Radek Sikorski, Poland may drive a slightly tougher bargain with America over missile defence. It will try to be a more co-operative member of the EU, avoiding the unnecessary fights, especially with Germany, that typified the Kaczynski era. “We've always held a hand out towards the Poles; now maybe it will be shaken,” says a German official. Law and Justice will see such rapprochements as treachery. But the voters thought otherwise.

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Europe's “blue card” plan

Not the ace in the pack

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Why Europe loses in the global competition for talent

DESPERATE Africans and Asians risk their lives in the Atlantic or the Mediterranean each year in the hope of finding a low-skilled job somewhere in Europe. But why are so few high-skilled engineers, technicians or doctors banging on the door? The best educated seem keener to go almost anywhere but the European Union. In Australia nearly a tenth of the employed population are highly qualified foreigners, in Canada more than 7% and in America just over 3%. The EU manages a paltry 1.7%, or roughly 70,000 highly skilled non-Europeans in the workforce, says Franco Frattini, the commissioner for justice, freedom and security.

That is a problem. Europe's economies, along with everyone else's, increasingly rely on talented workers. But not only are too few ageing natives equipped with the necessary scientific, engineering and other skills; many who are qualified choose to go elsewhere. That high figure for Australia, for example, is no doubt boosted by the many British émigrés down under. With skilled labour ever more footloose, getting migrants to fill the gaps is essential.

This week the European Commission launched a plan to provide a “blue card” (yes, for the colour of the flag) to help would-be migrants with suitable job offers, and their families, to get into Europe faster. Once inside, the holders could swap jobs, come and go from the EU and, after a while, move freely between countries. Although valid, at first, for just two years, the card would also make it simpler to get long-term residency. “We are trying to make Europe a bit more competitive,” says Mr Frattini. He modestly suggests that the scheme would nudge the number of highly skilled foreign workers up to 100,000 or so.

All good in theory, but do not expect much of a threat to America's green (in fact, pink) card. For a start, many European governments are jealous of their control of migration policies and will resist any harmonising effort by Brussels. Look out for possible German or British vetoes. And even if the card would make it easier to get in, it would do nothing to make Europe's economies more attractive in themselves. As long as those economies remain relatively undynamic, the most talented (especially English-speakers) will use their wits to look for work elsewhere.

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The EU treaty

What Lisbon contains

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The small print of a notably complicated document

EUROCRATS like to talk about building Europe “step by step”. Critics accuse Brussels of slicing away national sovereignty, treaty by treaty. Both versions are correct. Treaties are try-ons whose true effects become clear only years later.

Fans of the Lisbon treaty say it is designed to make EU institutions more efficient and to “streamline” decision-making after the union's enlargement to 27 nations. What does that mean in practice?

The EU's voting system will become simpler and more reflective of a nation's population size. The changes will be phased in between 2014 and 2017. After that, a majority vote in the Council of Ministers (which represents national governments) will be carried if 55% of nations representing 65% of the overall EU population say yes. In practice, though, the EU rarely votes, preferring consensus.

More important, majority voting will become the rule in some 50 policy areas currently decided by unanimity: most dramatically migration, criminal justice and judicial and police co-operation, where the European Court of Justice (ECJ) will also gain broad oversight for the first time. In return for giving up national vetoes, Britain and Ireland have obtained the right to stand aloof from individual measures, but in practice may opt in quite often.

The treaty creates a full-time standing president of the European Council (which represents national leaders). This figure, probably an ex-prime minister or similar bigwig, will be elected by serving heads of government for a two-and-a-half-year stint, renewable once, and will prepare and host four or more summits a year.

A new foreign minister in all but name will be created by merging two existing posts. Working for both governments and the European Commission, he will have political clout, money and his own diplomatic service. He will speak for the EU in places like the United Nations, whenever governments have agreed on a foreign policy position. Under the treaty, the keenest member states may also push ahead with defence co-operation among themselves.

The treaty gives legal force to the Charter of Fundamental Rights, a sweeping catalogue of social and civil rights. It is hard to predict how much it will matter. It talks of things such as a right to strike, or a “right of access to preventive health care”, that are not in the EU's gift: the Union has few direct powers to regulate industrial disputes or national health services. Everyone expects the ECJ to have the final say—even in Britain, which hopes a special protocol will make British laws immune from challenges based on the charter.

The European Commission's top layer of political leaders will shrink. After 2014, EU nations will lose the right to send one commissioner each to Brussels. Instead, the total number of commissioners will be capped at a rotating two-thirds of the number of member states. This may weaken the commission if big countries sulk about not having their own man inside.

National parliaments will be allowed to protest if they consider a proposed EU law unnecessary. The bar is set high: if half the 27 national parliaments are unhappy, then a majority of national governments (or a majority of members of the European Parliament) can insist a draft measure be scrapped. This new clause may hearten domestic opponents of moves dictated from Brussels. Or it may not.

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Turkey and the Kurds

When patience snaps

Oct 25th 2007 | ANKARA AND SIRNAK
From The Economist print edition

Another rebel raid takes the army closer to Iraq

BOWING to pressure from a seething public, Turkey on October 21st began an aerial bombardment of Kurdish rebel positions just inside northern Iraq. Meanwhile, on the ground, Turkish troops continued to carry out sporadic “hot-pursuit operations” against the homegrown Kurdistan Workers' Party (PKK) in the rugged mountains where the borders of Turkey, Iran and Iraq converge.

The tipping-point came earlier that day, when Kurdish rebels killed 12 Turkish soldiers and kidnapped eight others in a pre-dawn raid near the Iraqi border. Tens of thousands of Turks have been demonstrating ever since in a burst of patriotism not seen since Turkey almost went to war against Greece in 1974. Many, including women, have been popping up at army recruitment centres clamouring to be sent “to the front”. And it is starting to look like a front: in Sirnak, a hardscrabble province on the Iraqi border, F-16 fighter jets screeched overhead as a convoy of military buses filled with conscripts rumbled along a winding road.

The most pressing question now is how far Turkey will go. Were this week's cross-border attacks directed solely at the PKK? Or might they be the opening shots in a broader war targeting the Iraqi Kurds? Many Turks fret that the Iraqi Kurds' march towards quasi-independence is fanning irredentism among the 14m or so Kurds who live in Turkey. Hawks in the army believe that the only way to end this threat is to “reduce Iraqi Kurdistan to rubble”, says Tahir Elci, a human-rights lawyer in the mainly Kurdish city of Diyarbakir.

In an apparent bid to hold Turkey at bay (and after much arm-twisting from America), Masoud Barzani, president of Iraq's Kurdish region, called on the PKK on October 24th to end the violence. This followed a statement from Nuri al-Maliki, Iraq's prime minister, ordering the closure of all PKK offices in the country.

But Turkey says it will not be satisfied until the PKK's camps are shut down for good and its leaders handed over. If its demands are not met, Turkey will not only escalate its military campaign; it may also impose economic sanctions against the Iraqi Kurds. Options include restricting access to the Habur border gate—the Kurds' only gateway to Europe—and halting the sale of electricity, which supplies some 10% of what Iraqi Kurds need.

Recep Tayyip Erdogan, Turkey's prime minister, is expected to press his country's case in a meeting with President George Bush that is due to take place in Washington, DC, on November 5th. Certainly Turkey is in no mood to heed America's pleas for patience. It is furious that America, as it sees it, has done so little to help.

Mr Erdogan's new defiance is in sharp contrast with his earlier reluctance to mount a cross-border operation. He knows full well that the most effective weapon against the rebels is not war, but democracy. Under his rule, the Kurds have seen some gains: they are allowed to study their mother tongue, though in private language courses rather than state schools, and innovative welfare schemes have lifted millions of Kurds a little way out of poverty. All this helped Mr Erdogan's party, the AK, to improve its ratings in the Kurdish region in July's elections. It also drained popular support from the PKK.

Some pundits think the PKK intensified its attacks immediately after the elections to restore its waning prestige. “The idea”, says Hasim Hasimi, a moderate Kurdish politician, “is to provoke the state into brutality against ordinary Kurds, to polarise Turks and Kurds, and to reverse AK gains.” Rusen Cakir, a Turkish expert on Islam and the Kurds, offers another explanation. “The PKK is hoping to internationalise the Kurdish issue by sucking Turkey into northern Iraq.”

In a telling reflection of the sorry state of Turkish-EU relations, hardly anyone is talking about the damage a cross-border incursion might do to Turkey's membership talks with the EU. Calls from France and Austria to offer Turkey “privileged partnership”, not full membership, have caused support among Turks

for the EU to dip under 50% this year, from a high of 74% in 2004. Chillier relations with the EU have also dashed the hopes of a growing number of Kurds. They had started to see their future as citizens of an EU member state, with all the freedom this would entail, not as part of the independent Kurdistan that the PKK is promising to deliver.

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Switzerland's election

Colours of intolerance

Oct 25th 2007 | GENEVA
From The Economist print edition

A party that toys with xenophobia is the biggest winner

Get article background

JUDGING by the election on October 21st, the fastest-rising political forces in Switzerland are the far-right Swiss People's Party (SVP) and the ecologists. Both sport the colour green in their logos. They have little else in common.

The Green Party fell just shy of 10% of the vote and surged to a new high of 20 seats in the 200-seat lower house, the National Council. The nascent centre-right Liberal Greens took three more. Helped by worries about climate change in a nation full of mountains and glaciers, and with a reputation for efficiency in several cities and regions, the Greens also gained their first seat in the Senate. Although the ecologists remain behind the four biggest parties—and therefore outside the government—they have a new role to play as kingmakers in parliament, where no party commands a majority.

The populist SVP, however, which draws most of its support from rural and small-town Switzerland, had a clear lead in the polls. By building a personality cult around its billionaire leader, Christoph Blocher, the justice minister, and adopting a three-line agenda—expulsion of foreign criminals, no EU entry, tax cuts—the SVP captured seven more seats in the National Council. With 62 seats and 29% of the vote, against 26.7% in 2003, it recorded the best result of any party since 1919.

Mr Blocher, who has led the SVP's shift to the right, is one of the government's least-liked ministers. One of his most controversial acts in his first term was to criticise the country's anti-racism law. But he is the defining force in Swiss politics. “If you want to find out who's on the left or right, you just ask the Blocher question,” says Bianca Rousselot of gfs.berne, a polling institute.

The SVP's distance from its rivals was enhanced by a surprising slump for the unrenovated Socialists, to 43 seats. The business-friendly Free Democrats crumbled to their worst-ever score, 15.7% and 31 seats. The junior partner in the seven-minister Federal Council, the Christian Democrats, gained ground to reach 31 seats. However, the left, the centre-right and the SVP are roughly level-pegging, with 62 or 63 seats each. There is little prospect of a change in the 48-year-old power-sharing agreement when the new parliament elects a new Federal Council, Switzerland's equivalent of a cabinet, on December 12th.

What has changed is the renewed vigour of intolerance in a country that, unlike its neighbours, has been spared the experience of extremism in power. On October 6th, far-left demonstrators blocked an SVP campaign rally in Bern and clashed with police. Mr Blocher had polarised the country in the 1990s with a tough stance on asylum-seekers and immigration. But violence like this was hitherto unknown.

Pollsters found that the riot helped mobilise new voters, especially for the SVP. The party's unusually well-financed campaign, which was closer to British or American political marketing, already outshone its dated and timid rivals. But the SVP is also showing ever less restraint in stoking popular fears about foreigners. A game on the party's website shows Swiss passports being caught by overwhelmingly brown and yellow hands. And forthcoming campaigns, backed by the SVP, will call for referendums both on foreign offenders and on the building of mosques with minarets in Switzerland.

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The French presidency and the press

The perils of open windows

Oct 25th 2007 | PARIS
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A media stampede into the private life of Nicolas Sarkozy

THE moment he leapt up the steps of the Elysée Palace five months ago, Nicolas Sarkozy set about giving the French presidency a facelift. Out went the formal, remote style of his predecessor, Jacques Chirac. In came an open, regular-guy approach. The elegant Sarkozy family—five children, three marriages—posed Kennedy-style for the cameras on investiture day. Mr Sarkozy invited trade unionists to lunch and "victims and heroes" to his Bastille Day garden party. The message was clear: he was a young, modern president in touch with the lives of ordinary people.

Trial by magazine

Little did the people know how intimately they would be in touch with his. Over the past three weeks, the usually reverential French media have crawled over his divorce from Cécilia, which was officially announced last week. It has been splashed on all the magazine covers and chewed over on broadcast talk-shows. "Desperate housewife", screamed one headline, in English, in *Libération,* a left-wing newspaper. *Paris-Match* this week devoted a 16-page cover story to the subject. Mrs Sarkozy herself even joined in, giving *Hello*-like interviews—"I met someone else, I fell in love"—to the press.

All this is very odd since, traditionally, the French have considered the public interest to stop at the bedroom door. François Mitterrand kept his mistress and their daughter hidden in a presidential apartment for years, with the complicity of certain French reporters. Even today, fully 89% of respondents told Ifop, a pollster, that Mr Sarkozy's divorce was a purely private matter.

Why then this media frenzy over the divorce, the first in France's top job since Napoleon divorced Josephine in 1809? Part of the answer is precisely the perils of presidential transparency. But there is something else, too: the cult of celebrity. The French may consider the Sarkozys' divorce of no political consequence, but they are lapping up every last twist in the drama. Indeed, American-style celebrity news is thriving. In 2001-06, when overall press circulation dropped by 8%, that of the celebrity press jumped by 22%.

Amid all the sensationalism, few voices have denounced the charade of family unity for electoral ends. This is not surprising on the left: its presidential candidate, Ségolène Royal, announced her own separation from François Hollande, the Socialist party boss, only after the polls closed. It may also be because, like the British media over the break-up of Prince Charles's marriage to Diana, the French media have long been chronicling the Sarkozys' complicated relationship. Just as the royal divorce marked the modernisation of the British royal family, so too—though not quite as Mr Sarkozy intended it—his own divorce is pushing the French presidency into the glaring modern world.

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Russia's food prices

The big fix

Oct 25th 2007 | MOSCOW
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Not so much state control as blatant electioneering

Get article background

THE Russian government knew perfectly well what it was doing when it attempted to fix prices for basic foods this week. It was running an election campaign for President Vladimir Putin. A sharp increase in food prices is a lot more damaging to his reputation, especially among poor pensioners, than any concerns about freedom of speech or democracy in Russia. And Mr Putin knows it.

So the government has reached a voluntary agreement with large retailers and food producers. Voluntary, in Russian terms, means that retailers are free to turn down the government proposals if they wish to face invasive tax inspection, penalties and loss of business. Unsurprisingly, no one objected. Prices of basic foods will be fixed at last week's levels until January 31st 2008—a period which conveniently covers the parliamentary elections in which Mr Putin, who heads the party list of the pro-Kremlin United Russia party, is the only plausible winner.

Price-fixing in such a highly fragmented industry is unlikely to have much impact or cause much damage to the Russian economy. Rising inflation, which has already overshot this year's target of 8%, is largely driven by external factors that Russia cannot influence. Mr Putin, too, is not blind to the dangers of the practice. “He could give you a half-hour lecture about the ill effects of price-fixing on the market, including deficits and the black market,” says Rory MacFarquhar, an executive director at Goldman Sachs in Moscow. The purpose of the price-freeze is to create an impression among voters of the government's activity and efficiency.

According to a recent poll, almost half of Russia's population believes that food-price increases are the result of a conspiracy between producers and speculators, rather than any global trends. The punishment of supposedly unscrupulous businessmen who profit from people's misfortunes will probably be the next step.

But the price-fixing show is also an alarming symptom of the governing elite's belief in its total administrative power. The Kremlin is so used to being in charge that it feels the best response to rising prices is to tell them to stand still, argues Andrei Illarionov, a former adviser and now a fierce critic of Mr Putin. But such mighty commands will do nothing to solve the structural problems of Russia's economy, including the weakness of the farm sector and the banking system.

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Bosnian politics

Cracking up

Oct 25th 2007 | BANJA LUKA AND SARAJEVO
From The Economist print edition

Spurred by Russia, the Bosnian Serbs are making trouble again

ON THE face of it, Bosnia is doing fine. The economy is forecast to grow by a healthy 6% this year. When politics is not at issue, Serbs, Bosniaks and Croats get on better now than at any time since the end of the war. But politics keeps rearing its head. The past week has seen battle joined in a power-struggle that will determine where real authority lies in Bosnia and even if, in the long run, it will survive.

At the end of the Bosnian war in 1995 the country was divided into two parts, a federation of Croats and Bosniaks (Muslims) and the Serbian Republika Srpska (RS). Croats and Serbs were unenthusiastic about being forced to remain in a Bosnian state, but accepted that this was the result of the war. To keep this complex show running, the peace agreement provided for an international governor-general to arbitrate between the Bosnians and intervene when necessary.

The last high representative, as he is known, believed it was time for Bosnians to run their own show, so he stepped back from political life. After all, he argued, the office was due to be closed in June 2007. The result was political gridlock and stagnation, so the office stayed open. An agreement with the EU, widely regarded as the first step towards membership, has been ready since 2006. But Bosnia's leaders have not been able to agree on a number of political reforms that are required first, especially of the police.

Enter Miroslav Lajcak, a highly regarded Slovak diplomat who took over as high representative in July. He tried to break the deadlock over police reform, and warned Bosnia's leaders that unless they agreed to it they would lose another opportunity to move forward on the EU track. They failed, and so on October 19th he unveiled the first of what he says is a series of proposals for big changes.

Mr Lajcak is demanding that the Bosnian parliament and government can no longer be blocked simply because their members refuse to show up, which is often the case now. Bosnia's Serbian leader, Milorad Dodik, erupted in fury. This, he said, meant that Croats and Bosniaks could outvote Serbs; and, in revenge, he threatened to withdraw all Serbs from state institutions. If this happened, it would lead to chaos. Bosnians still remember how the RS was formed on the eve of war in 1992, when the Serbs left Bosnia's institutions.

On October 22nd a meeting between Mr Lajcak and Mr Dodik appeared to calm tensions. Immediately afterwards Mr Dodik left for a meeting in Belgrade with Serbia's prime minister, Vojislav Kostunica, and Vladimir Titov, Russia's deputy foreign minister. The threats to bring political chaos to Bosnia then started again. “They should either stop this or reveal their real intentions,” says Mr Lajcak. Asked whether, if things got worse, he would use his legal power to sack Mr Dodik, he replied with a firm “Yes”.

The looming struggle is closely connected to Kosovo. Technically it is a part of Serbia. If it gains independence soon, it will strengthen the hands of those, such as Mr Dodik, who oppose the centralising of the Bosnian state and sometimes threaten RS independence. This week Serbia's leaders have weighed in with denunciations of Mr Lajcak, as have the Russians, who have previously co-operated well in Bosnia with their Western counterparts. Now it seems clear that they are opening a new line of confrontation with the West, which stretches via Kosovo to the dispute over America's proposed missile shield.

Western diplomats have shelved the idea of closing down Mr Lajcak's post. Russia has not, and in November Russia's agreement in the Security Council will be required to renew the mandate for the remaining 2,500 EU peacekeeping troops in Bosnia. A fight may be in the offing. And even if Russia agrees to the renewal of the mandate, the broader outlook for the region is not hopeful. Judy Batt of the EU's Institute for Security Studies, who is working with Mr Lajcak, says that “politics in Bosnia and Serbia now mean that the EU perspective for the whole region is dying.”

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Charlemagne

Congratulations! It's triplets!

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Illustration by Peter Schrank

The new EU treaty creates three competing posts for the title of "Mr Europe"

LIKE newborn babies, big political deals in the European Union always seem to arrive in the early hours of the morning, after protracted agonies. The latest EU treaty, finally agreed on (after a mere six years' wrangling) at a summit in Lisbon last week, was no exception. The summit's host, Portugal's prime minister, José Sócrates, looked suitably proud yet weary as he announced that all 27 national governments had given their blessing to the new text, some time around 2am. "The new Treaty of Lisbon was born today. This is a European victory," he declared.

That sounds cheerful enough. Yet around the tent-like summit hall, the dominant emotion was relief, tinged with melancholy. Once, EU leaders had dreamed of a very different debut for their newest treaty. The Lisbon text is what remains of a project to give the union its own constitution, filled with sweeping declarations and symbols. That, of course, was before voters in two founding nations of the EU, France and the Netherlands, voted no to the constitution.

Desperate to avoid further referendums, EU leaders rushed for the safety of the old ways: cramming the innovations of the constitution into an unreadable treaty, designed for rapid approval by national parliaments. The leaders have what they wanted, a new treaty, but glumness is natural. Dreams of an uplifting, revolutionary arrival (think New Age birthing pool, taped whale song and candles) ended up as the legal equivalent of a nasty forceps delivery.

Was it worth the pain? If Lisbon has a chance of mattering in 20 years' time, it will have nothing to do with the rows over voting weights or blocking minorities that have dominated recent headlines. Instead, Lisbon may be seen as the moment that Europe finally resolved to live up to its economic heft and become a power on the world stage.

Lisbon creates two big new posts, and endows both with a mandate to represent the EU abroad, speaking for nearly half a billion citizens whenever member governments agree on a common foreign or security policy. The first is a European foreign minister in all but name, devised by merging a couple of existing posts in the field of foreign policy. The new EU diplomatic chief will work both for national governments, which should give him political clout, and for the European Commission, which has lots of money and staff.

But this High Representative of the Union for Foreign Affairs and Security Policy, to use the job's nifty title, will face a rival. Lisbon also creates a new standing president of the European Council (the EU body that represents national leaders). The holder will probably be a European former head of government, elected

by serving heads for a two-and-a-half-year term, renewable once.

Either character could become the figure regarded by the world as “Mr Europe”—if they can see off a challenge from an existing big beast of the Brussels jungle, the president of the European Commission. Their struggle for influence will reveal much about which way the EU is heading as a global power—and whether it has the resolve and shared vision to play such a role.

This last question is by no means settled. Europe has advanced, in the past, by creating new posts and institutions and hoping that political unity would catch up. Yet forging unity in foreign policy is harder than anything tried before. Nobody has forgotten how Iraq left the EU horribly divided.

Any attempt to devise a traditional foreign policy presupposes the support of the handful of European governments who can project hard power at long distances. (It takes friends with gunboats to conduct gunboat diplomacy.) That may strengthen the hand of the new council president, expected to be the creature of the big member nations who already dominate summits—which is why small countries opposed the post's creation.

Grazing with herbivores

Then again, hard power is out of fashion, and not just in the EU. An analysis of world public opinion published this week by the European Council on Foreign Relations, a new think-tank, uses the term “herbivorous” to describe the kind of emerging powers whose rise is broadly welcomed around the world. Thus the survey finds Brazil is rather popular, and world citizens are pretty calm about the EU's rise (or, more insultingly, they believe Europe is too puny to fuss over).

To date, the EU has mainly thrown its weight around in economic affairs. A continuation of that approach would favour the European Commission and its president as head of the Brussels machine. It is the commission that represents all 27 member nations in world trade talks. Eurocrats and European parliamentarians lead the competition with America to set regulatory regimes and standards for global trade.

Perhaps, though, it is a mistake to focus on such 20th-century ways of exerting influence overseas. Inhabitants of the Brussels bubble may be wrong to keep obsessing over which new figure will become “Mr Europe”. The new treaty allows the EU to weigh in on energy policy, climate change and migration, for example, and makes it easier to fashion common policies in those fields by scrapping national vetoes in areas such as migration policy. In the words of one official: “If the EU does get its act together on energy, climate change and migration, it will have created a foreign policy. It just won't look like the foreign policies we are used to right now.”

Given Europe's woeful inability to unite around coherent external policies in the past, even this is an optimistic vision. But get this right, and there would be enough work to keep a council president, commission president and foreign minister busy all at the same time. In that case, Lisbon would have spawned not one infant “Mr Europe”, but triplets: an achievement to blot out memories of the treaty's wretched arrival in the world.

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Bangladeshis in Britain

From Brick Lane to the fast lane

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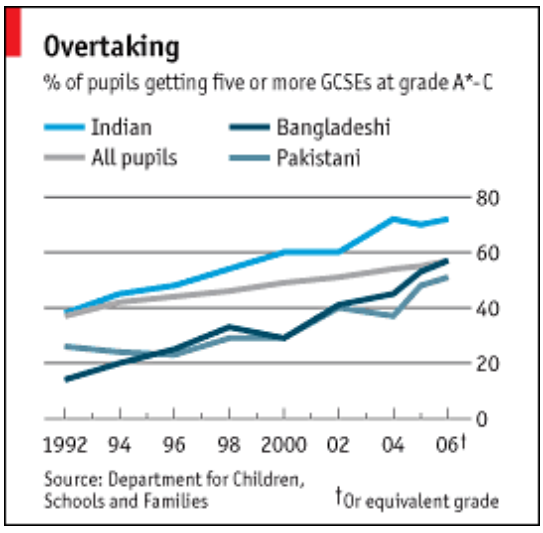
Imagenet

Against all odds, Britain's poorest big ethnic group is streaking ahead

IN THE end, the book burnings never really kicked off. The silver-screen adaptation of “Brick Lane”, a best-selling novel about a young Bangladeshi woman's uphill struggle in east London, irked some of those who live around the famous street. Community bigwigs (mainly self-appointed) called the portrayal of their neighbourhood a “despicable insult” and threatened bonfires, blockades and worse. Filming on location was hampered, and last month Prince Charles pulled out of a special royal screening, reportedly fearing controversy. The film's London premiere is set for October 26th.

Monica Ali, the book's author and herself born in Dhaka, points out that the small crowd of protesters was dwarfed by the number of local people queuing up to be extras in the film. Indeed, Brick Lane itself is a monument to multicultural tolerance of the most photogenic sort: Bengali curry houses compete with *beigel* bakeries; a Church of England school sits opposite the Bangla City supermarket, where restaurateurs heave away jumbo frozen fish. Up the road, snowboard shops and art galleries announce the invasion of cool-seeking yuppies. A tiny bedsit is yours for £350 ($700) a week—and how much those rents might have risen had the elders allowed more filming to take place.

The film ends cheerily—and, although the experience of Bangladeshis in Britain has not been all plain sailing, they too seem on course for a happy ending. Historically bottom of the heap of Britain's south Asian immigrants, they have in recent years been bounding ahead. Bangladeshi children (including those born in Britain) have overtaken Pakistanis at school; they have even narrowed the gap with Indians, the most successful south Asian group (see chart). After controlling for poverty, the results are brighter still. Among children receiving free school meals (a useful indicator of poverty), 26% of white children manage five good GCSEs. For Pakistanis this rises to 40%; poorer Bangladeshis rack up 50%.



This is all the more surprising given that their parents are faring less well than others at work. Pakistanis (the most useful group for comparison, as they, like Bangladeshis, are south Asian, Muslim and of mainly rural stock) are more likely to be employed and to earn more per hour. And Bangladeshi children are not outperforming because their families have had longer to bed down in Britain: immigration from both places accelerated through the 1990s.

Part of the answer lies in geography. Pakistanis are spread all over the country but Bangladeshis, like Indians, are heavily concentrated in London. More than half of the 330,000-strong community live in the capital, and of these almost half live in the borough of Tower Hamlets, within whose western border runs Brick Lane.

Overcrowding is rife in the borough, and inner-London state schools tend not to be brilliant. But the highly concentrated nature of the community can be a strength, argues Rushanara Ali of the Young Foundation, a think-tank. Ms Ali hopes to become Britain's first Bangladeshi MP, for Labour, at the next election. “There is masses of social capital,” she says. “People pool their resources to support kids in after-school classes. There's a lot of informal home-based learning.” The fact that most Bangladeshi migrants come from just one region, Sylhet, binds the community tighter still. And the sheer numbers mean that schools in Tower Hamlets are used to negotiating the language barrier and working with parents and religious groups. Perhaps coincidentally, the borough was also the testing ground for “synthetic phonics”, a way of teaching children to read that seems to work especially well for pupils whose first language is not English.

Stumbling blocks persist. Despite their stellar GCSE performance, Bangladeshi students are less likely to stay on in school after the age of 16 than are Pakistanis, and those who do fare slightly worse. Poverty is one cause, since it is from this stage that students forgo paid work in order to study (and may face tuition fees at university). But there is also an aspirational hurdle, reckons Misbah Mosobbir, founder of bobNetwork, a professional association for British Bengalis. “It's a question of confidence in the community. There's a lot of cultural baggage: the parents are all focused on catering and there is a lack of role models.” Mr Mosobbir was channelled into waiting on tables, like his father. Eventually he took up evening classes, then studied for a university degree. Now aged 37, he is an investment banker, and next month will take a group of teenagers to visit a bank in Canary Wharf, London's new financial district, to widen their horizons. (Boris Johnson, the wily Conservative candidate for London mayor, will attend their next session to inspire youth and perhaps chase Muslim votes.)

As Tower Hamlets turns out more bright sparks, however, Bangladeshis' economic situation is slowly improving. Today's workers are getting better jobs: a study for the Joseph Rowntree Foundation, a charity, found that between 1991 and 2001 Bangladeshi men ditched manual work in droves to go into skilled and professional occupations. And Bangladeshi women are now working or seeking work as actively as Pakistanis (still a woeful 33%—but that is ten percentage points better than a decade ago). Wages are catching up too: hourly pay is now a quarter below the average in Britain, compared with a third below in 2001.

As the community pulls itself up, it means more change for east London. The Jamme mosque on the corner of Fournier Street and Brick Lane is a symbol of the area's history as an immigrant launch-pad. Before 1976 it was a synagogue; before that a Methodist chapel; and earlier still a church for French Huguenots. One day the Bangladeshi graduates of Tower Hamlets College will move up and out. Who will star in “Brick Lane 2”?

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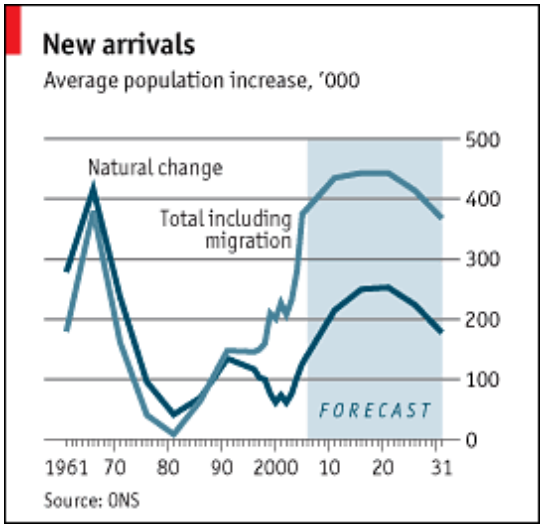
Demographics

On a tear

Oct 25th 2007
From The Economist print edition

Britain's population is set to grow ferociously—perhaps



ALL countries need a national myth. For decades after its loss of empire, Britain's was that of its own decline. Yet not everything is withering away. Britain is one of the relatively few developed countries that have a growing population, and it is growing far faster than was thought just two years ago. According to the Office for National Statistics, which released new estimates on October 23rd, today's population of 60m may become roughly 71m in 25 years' time, and 77m by 2050.

These projections suggest the biggest increase in population since the post-war baby boom, much of it due to immigration (see chart). Foreign-born women are pushing up the birth rate, which is now expected to stabilise at 1.84 children per woman rather than the 1.74 that was projected in 2005. Life expectancy, currently 77.2 years for men and 82.7 for women, is likely to rise by 2031 to 81.5 and 86.2, respectively. Net immigration may eventually run at around 190,000 a year, not at 145,000 as assumed.

Not everyone is keen on the prospect of a bumper crop of new citizens. The Optimum Population Trust, a think-tank, cites surveys showing that most people think Britain is already overcrowded. David Coleman, a demographer at Oxford University, describes meeting the needs of an extra 15m or so people as an "absent-minded commitment" about which there has been little debate. Unplanned immigration has posed problems for many local councils, which are struggling to find houses and school places for newcomers. And some worry about the social consequences of a population that could, by Mr Coleman's calculations, be 30% non-white by 2050.

But will all this in fact come to pass? Population projections are fraught with difficulty, points out Andrew Hinde of Southampton University. Improvements in life expectancy have been relatively constant, he says, but migration and fertility are much trickier to predict.

Migration—which accounts directly for around half of the predicted population increase—is particularly elusive. The scanty data come mainly from a single survey. Numbers fluctuate for many reasons, including changes in government policy, booms and busts in Britain's economy, and conditions in the places that immigrants come from. Fertility can defy predictions too: one projection in the 1940s failed to foresee a rise in child-bearing in the following two decades and put the population of England and Wales at 35m in 2000—a third less than proved to be the case. And predictions are more speculative the further into the future they go, as even small errors grow large when repeatedly compounded.

That immigration accounts for so much of the predicted rise in Britain's population makes discussing the problem of overcrowding politically difficult, for migration frequently tops the list of voters' concerns these days. Both the Labour government and its Conservative opponents have promised to tighten the rules. If these new projections are even halfway correct, the issue can only become more pressing with time.

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Northern Ireland

Crime scene revisited

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A murky murder, a whiff of the past

NOT long ago the discovery of a badly beaten body on Northern Ireland's southern border would have made the Rev Ian Paisley call for the IRA's head. After lesser crimes, Mr Paisley used to lambast his fellow unionists for accepting at face value the avowed commitment to peace of Sinn Fein, the IRA's political wing, and mock the police for hesitating to attribute guilt. Now that the Democratic Unionist heads the devolved Stormont executive with Martin McGuinness, a former IRA leader, his reactions are different. There was little sign this week that the government was about to collapse.

Yet the murder on October 20th of Paul Quinn, a young man from south Armagh, in an abandoned cowshed across the Irish border in County Monaghan was unspeakably brutal. He was beaten with pickaxe handles, spades and iron bars by men who had forced two of his friends to lure him to the lonely spot, then made them listen to his screams.

Mr Paisley warned that if the murder proved to be the work of the Provisional IRA then “very serious consequences” would flow. But there should be no rush to judgment; people should wait for the findings of the police in both Northern Ireland and the Irish Republic, he urged.

Both sets already say that they do not believe the IRA ordered the killing. It is more likely, according to the Irish, that the dead man was involved in smuggling diesel, and was killed after unrelated quarrels with men from his village of Cullyhanna. His relatives deny the smuggling, and say he was murdered for defying an IRA order to leave after the quarrels.

Conor Murphy, the MP for the area and a former member of the IRA, says it was not involved in the crime. Gerry Adams, Sinn Fein's president, and Mr McGuinness condemned the killing hours after it happened and called for anyone with information to give it to police. “There is no republican involvement whatsoever in this man's murder,” said Mr Adams. He believed, he said, that it arose from a dispute about fuel-smuggling or other shenanigans that are rife along the border (mostly in the hands of former IRA members).

Such pronouncements seem unexceptionable, but for Sinn Fein they are quite a turnaround. For decades the party attempted to justify IRA violence, refusing to co-operate with the police. The unequivocal public condemnation of the murder by Mr Adams and Mr McGuinness this week helped Mr Paisley and his party to remain calm. But the changed political climate is the main reason why peace still reigns. When the murder was discussed at Stormont with senior Sinn Fein figures, there was no suggestion of raised voices.

On the ground, however, the past is not swept away so tidily. The Quinns issued their statement through a local man, Jim McAllister. One of Sinn Fein's first elected representatives, Mr McAllister broke with the party when it accepted the authority of Northern Ireland's police in March. Mr McAllister said that most in south Armagh were convinced that the IRA killed Quinn, but he himself thought that murder was not the intent. It was a “punishment” that went too far, he suggested. It echoed grimly of the old excuses.

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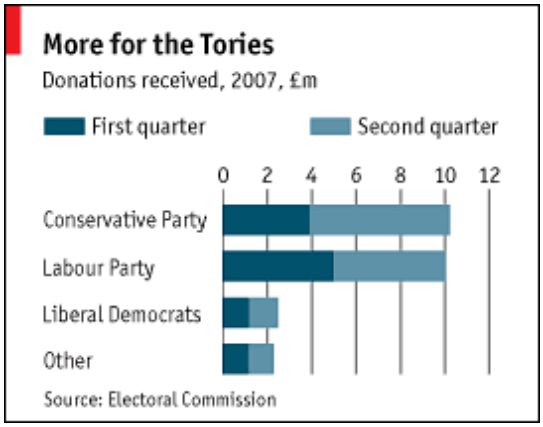
Political-party funding

Good intentions meet the bottom line

Oct 25th 2007
From The Economist print edition

A vexed issue is as far as ever from a happy ending



WHATEVER the grumbles about their political system, Britons in modern times at least have usually been able to console themselves that it is relatively untainted by money. Election campaigns are nothing like as profligate as those in America, and corruption is not the tolerated blot on the landscape that it is in parts of continental Europe.

Yet recent controversy has revived the vexed question of party funding that dogged Tony Blair's final year in office, when police were investigating allegations that both main parties had solicited loans and offered peerages in exchange. The Crown Prosecution Service decided not to bring charges against Labour in July, and spared the Conservatives on October 9th. John Yates, the police chief who led the probe, stirred old passions when he told a House of Commons committee on October 23rd that he had received “less than full co-operation” from some of those involved in it.

It was to propose a plan for reforming political parties' unsatisfactory ways of financing themselves, and to reach a consensus supporting it, that Mr Blair commissioned a review of party funding from Sir Hayden Phillips, a retired civil servant, in 2006. Sir Hayden hoped to resolve the matter by the middle of this month. He has not, because the second of his tasks has proved much harder than the first.

The essence of Sir Hayden's recommendation—an increase in state funding for political parties in return for tighter limits on spending and donations—has the support of all the main parties. Public funding, though controversial, already exists in various forms, such as free party-political broadcasts and the so-called Short money and Cranbourne money available to the opposition in the Commons and Lords, respectively.

Where cross-party agreement founders is in the exact design of these arrangements. As David Cameron, the Conservative leader, made clear in a letter to the prime minister on October 20th, the Tories are prepared to support an increase in state funding only if the limit on private donations (which Sir Hayden suggests should be £50,000) applies to trade unions.

Labour opposes this, as much of its funding comes from large union donations. In 1996 Stephen Byers, then a shadow cabinet member, spoke of ending Labour's official relationship with the unions, which gives them a say in party matters in return for their money. Not even the most zealous moderniser harbours such hopes now: Labour has fewer than 200,000 fee-paying members (it boasted twice as many a decade ago), and does not court wealthy individuals as easily as before the cash-for-peerages row. But Labour's reliance on its traditional benefactors carries a political cost of its own. The Warwick Agreement of 2004 saw the party agree to many union demands (including talks on public-sector pensions, which resulted in a decision to let current state employees continue to retire at 60, rather than, like most of the population, at 65) in return for financial backing.

The Tories are also vulnerable on the issue of party funding. They received even more than the Labour Party in loans before the last election. And Labour MPs in marginal seats are now criticising the Conservatives' reliance on a single donor, Lord Ashcroft, who is exploiting a gap in the law that allows unlimited sums to be spent on constituency campaigning between elections. They cannot match the sophisticated voter databases and mailshots that his money buys, they say. Geoff Hoon, Labour's chief whip, accuses the tycoon of seeking to “dominate” the Tory party. But Lord Ashcroft claims that most of the cash for targeting marginal seats comes from other donors, and that in any event such spending merely levels the playing field. Labour has far more incumbent MPs, who can use an official

communications allowance to cultivate their voters.

This bickering between Labour and the Tories has put paid to Sir Hayden's hope of having a deal done by now. It may take another funding scandal, and voters' resulting revulsion, before parties conclude that they have more to lose from blocking reform than from accepting it.

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Energy sources

The atom and the windmill

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Nuclear power draws nearer as renewables retreat

THE timing was impeccable. As the first hints of winter sent temperatures falling this week, British Energy, whose eight nuclear power stations can meet a fifth of Britain's electricity demand, said on October 22nd that it had discovered a technical problem in one of its reactors. Worried that three similar reactors might be similarly afflicted, it decided to shut two of them down and to delay restarting the other, which was offline for maintenance.

British Energy shares dived 8% that day and short-term power prices jumped by about 15%. Unplanned outages have been commoner of late. Another of the firm's reactors is also offline due to an “electrical fault”. Last year cracked boiler pipes forced a long shutdown at two other sites.

For the nuclear lobby, such technical difficulties highlight the urgency of immediately replacing Britain's doddery old reactors, many of which date from the 1960s and 1970s. Environmentalists, most of whom oppose nuclear power, see things differently. They argue that British Energy's troubles are evidence that nuclear power is an unreliable technology that has no place in a modern energy mix.

Unfortunately for greens, ministers seem to agree with the atom-splitters. Impressed by arguments that nuclear energy is a proven source of low-carbon power, and worried about the dependence on foreign fossil fuels caused by the decline of North Sea oil and gas, the government has been preparing the ground for a nuclear revival. An ostentatious public consultation on the issue finished this month, and some official pronouncement is expected in the next few months. Meanwhile EDF Energy, a French company, has pledged to build a plant by 2017, with three more to follow.

Environmentalists fret that new nuclear plants will come at the expense of eco-friendly technologies such as wind and wave power. On October 23rd those fears seemed to be confirmed. The *Guardian* newspaper published extracts from a leaked document suggesting that Gordon Brown was trying to wriggle out of a pledge made by Tony Blair, his predecessor as prime minister, that 20% of European energy consumption would be met from renewable sources by 2020. Civil servants described the target as “expensive” and said that it faced “severe practical difficulties”. That was a diplomatic way to speak of a target that Britain, which gets 2% of its energy from renewables now, has little chance of meeting. Malcolm Wicks, the energy minister, points out that the target is for Europe as a whole, and suggests Britain might manage 10-15% by the deadline.

Stung by accusations that it is diluting its trumpeted commitment to greenery, the government details its support of all sorts of expensive schemes. A multi-million-pound competition to build a “clean” coal power plant that would trap and store carbon emissions in depleted oil fields is to be launched in November. Subsidies for renewable energy will be rejigged in the hope of encouraging technologies, such as solar or wave power, that are not yet competitive. But that cuts little ice with experts, most of whom agree that the government is unwilling to spend the money required to give renewables a big boost. “It is wedded to nuclear power,” says Robin Webster of Friends of the Earth, a green group.

Yet even if ministers row back on renewables, they may not get the new nuclear plants they want. Decades of decline have left the industry short of engineers. Economics is a problem too. The government insists that any nuclear stations must be built without state aid. But nuclear plants—with their huge capital costs and glacial start-up times—are a dicey proposition in Britain's liberalised electricity market, where prices fluctuate rapidly. Ministers are trying to make planning rules more nuclear-friendly, and hope that tighter carbon-emission limits will help nuclear energy shine by comparison with fossil-fuel plants. But Martin Brough of Oxera, an economics consultancy, thinks that more will be needed, most probably a guaranteed minimum carbon price. That would be tantamount to stifling the markets, and reneging on another energy promise.

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Scottish politics

Home sweet home

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Gordon Brown v David Cameron—and Alex Salmond

CASUAL observers of the playground-cum-circus that is Parliament might be surprised to hear that there are rules about what can and cannot be said in it. But there are—and Gordon Brown came close to breaking one of them when, on October 24th, he accused David Cameron of “misleading people”, ie, lying.

The cause or pretext for this particular spat was an official report into the shoddy elections for the Scottish Parliament in May, in which 146,000 ballots ended up rejected. Voters, concluded the report, had been “treated as an afterthought”; there had been “a notable level of party self-interest evident in ministerial decision-making”. Mr Cameron used these findings to attack Douglas Alexander, a confidant of Mr Brown and Scottish secretary at the time of the vote. Mr Alexander issued a qualified apology.

And Mr Cameron was not the only politician to seize on the report for his own purposes: so did Alex Salmond, the nationalist first minister of the devolved Scottish government, who highlighted its recommendation that in future Scotland should be in charge of its own elections. That is one part of his canny long-term campaign to disengage Scotland from Westminster, and to turn the Scots against London and Mr Brown.

It is a multi-faceted effort. On October 22nd, after a meeting with anti-nuclear campaigners, the Scottish government announced that it was setting up a group to see how existing laws might be used to stop missiles being moved around the Trident submarine base on the river Clyde—rendering it useless. Whether Mr Salmond can do this is dubious: the devolution settlement prevents one government from using secondary powers to thwart the primary purpose of the other. But Mr Salmond means business. He has written to the 189 countries that have signed the Nuclear Non-Proliferation Treaty, seeking observer status for his government at the next review of the treaty. At the very least, the move will provoke a row with Mr Brown.

Opposition parties in Scotland say Mr Salmond should concentrate on fulfilling the public-service promises that helped his Scottish National Party (SNP) win the largest number of seats in May. His government indignantly claims to be doing so. On October 23rd it published a bill to abolish the fee—currently £2,289—that Scottish university students pay after graduating. The day before the health secretary announced the abolition of all charges for prescription medicines by 2011.

These generous perks are provoking envious ire in England, which does not enjoy them, and where some think that the Scottish government gets too much money from Britain's Treasury: £31.3 billion in 2007-08. Not at all, says Mr Salmond. He claims that Scotland had a rotten deal in the comprehensive spending review of October 9th. His government is to receive an additional £3.4 billion in central-government money over the next three years. This amounts to a meagre 1.4% rise a year, in real terms, compared with an average annual 5.2% increase between 2001 and 2008. Though the pace of public spending is set to slow throughout Britain, the complexities of the formula that determines Scotland's share have dealt it a heavy blow. Mr Salmond will struggle to pay for all his pledges—for example, to cut class sizes in primary schools.

So it looks as if he will now have to make the big efficiency savings he also promised—something all parties find easier to talk about in opposition than to implement in office. If he can't, his excuse will be to blame the tight-fistedness of Mr Brown and Alistair Darling, his chancellor.

This is an old political game. Messrs Brown and Darling, both Scottish MPs, played it endlessly in opposition. Though Mr Salmond's complaints of parsimony towards Scotland may be useful to the two south of Hadrian's wall, north of it they will be portrayed as the slashers and burners of public services. Scottish politics rarely intrudes in Westminster, as it did this week, but it is likely to feature regularly in Mr Brown's nightmares.

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With-profits funds

The multibillion-pound carve-up

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Regulators must make insurers share out undistributed earnings fairly

NO EXPENSE has been spared in bailing out Northern Rock's depositors after the mortgage lender ran out of cash in mid-September. Some £16 billion of public money has already been lent to the bank, and £24 billion in deposits guaranteed.

Yet even as the authorities fall over themselves to protect one group of savers, they have stood by as insurers try to short-change another group, by keeping for themselves earnings that many believe rightfully belong to savers who invested in what are called “with-profits” life-insurance policies. Once a popular form of savings, these policies allow their holders to share in the profits or losses of the insurer's investments on their behalf, and in some of its underwriting profits too.

Billions of pounds are at stake. Many insurers built up large reserves by hanging on to money set aside to smooth investment returns over time but never paid out for that purpose. In policyholders' interests, regulators have progressively restricted such practices in recent years. But the proceeds of past non-smoothings constitute the bulk of insurers' “inherited estates” today, and these can be huge. Two of the country's largest insurance groups, Prudential and Norwich Union, value their estates at £13 billion, taken together, and experts reckon that the total for all insurers may be around £20 billion.

These pots of money are useful to insurers. Firms are allowed, for example, to dip into them to pay compensation in cases of misconduct, or to pay corporation tax on shareholders' profits. Most importantly, insurers have been able to use the funds as a free source of capital to underwrite new business.

Now that sales of with-profits policies have dwindled, however, regulators are pushing insurance companies to unload their excess capital. They want the firms to give 90% of it to policyholders, the same ratio that applies to current earnings of with-profits funds. To avoid such a forced distribution, Norwich Union and the Pru have notified policyholders that they themselves are thinking of liquidating the funds. They have yet to suggest how they intend to share them out.

The issue of who owns these disputed billions is not a simple one. Most of the policyholders whose earnings were skimmed (before new, tighter regulations on smoothing came in) have perished or got lost in the place where old files go to die. Their successors have not themselves been underpaid but argue that it is wrong to let shareholders get money that should have been paid out to earlier policyholders. Insurers claim that, as shareholders stumped up some money a while back to capitalise funds and guarantee those that went bad, they are due much of the disputed capital. “This could be the biggest bonanza for consumers since the building-society demutualisations,” says Dominic Lindley of Which, a consumer lobbying group, “or one of the biggest rip-offs in the history of the financial-services industry.”

The authorities have been pondering the dilemma for more than a decade, to little effect. The seemingly straightforward 90:10 distribution rule they first came up with in 1995 was fatally undercut by later rulings by the regulator itself and by the courts. These let insurance firms negotiate the sharing out of their inherited estates with policyholders, offering them cash immediately in exchange for their rights to future pay-outs. As customers rarely have equal access to information or legal talent, they fail to protect their interests. This was demonstrated when Axa managed to pay policyholders just 31% of its £1.7 billion estate in 2000, partly by convincing people that they couldn't be sure of getting anything at all if they said no.

The Financial Services Authority, Britain's all-purpose financial regulator, approved that deal. But in an implicit acknowledgment that not all was well, it has since changed the rules, forcing firms to appoint independent “policyholder advocates” to negotiate for customers.

Sarah Wilson, the director in charge of insurance at the FSA, sees nothing amiss with the situation. She argues that insurance firms, not policyholders, own the inherited estate and that, at best, policyholders

have a “contingent claim”.

But this Panglossian view may prove short-lived. With furious lobbying going on behind the scenes, and the FSA looking for ways to restore a reputation that was bruised by the collapse of Northern Rock, change is in the air. In a little-noticed remark at a parliamentary-committee hearing on October 9th, Hector Sants, the FSA's boss, hinted that new regulatory rules on with-profits distributions would make it impossible to repeat the Axa carve-up. “That is an issue to be looked at,” he said, and promised to take a “direct personal interest” in the matter.

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Bagehot

On plain speaking

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Illustration by Steve O'Brien

What the British are arguing about, and who is doing the arguing

IF A novelist and a professor argue in a forest, and no one else hears them, can it count as a controversy? Of course not (unless they blog about it afterwards). The press is an essential ingredient of scandal—and the media's preoccupations only ever approximate those of the public. That is a necessary proviso for anyone purporting, as Bagehot now is, to infer lessons about the national mood from a jigsaw of headlines. Even so, a recent contagion of controversies seems to suggest some interesting things about Britain's intellectual climate: interesting, and troubling.

Sometimes inadvertently, a series of men have caused a stink in the past few weeks by speaking too plainly. Martin Amis, a novelist, has fought an op-ed guerrilla war with Terry Eagleton, a polemical critic, over Mr Amis's alleged views on Islam. In a riskily sophisticated way, Mr Amis once confessed an “urge” to say some harsh things about Muslims; in an introduction to a book, Mr Eagleton likened Mr Amis's animadversions to “the ramblings of a British National Party thug”. He threw in a sideswipe at Mr Amis's misanthropic father, Kingsley. Mr Amis dug in, affirming the moral superiority of Western liberalism over Islamism, and the irrationality of his (white) six-year-old daughter being scrutinised at airport security.

On the undercard of this contest, Richard Dawkins, a scientist and proselytising atheist, remarked in a newspaper interview that Jews “more or less monopolise American foreign policy as far as many people can see”. James Watson, co-discoverer of the structure of DNA, told a British newspaper that Africans' intelligence was “not really” equal to “ours”, and implied that black people made disappointing employees. His British speaking engagements cancelled, Mr Watson fled back to America. Almost but not completely unrelatedly, a senior black police officer said that, to help prevent violent crime, Britain's black community would like the police to stop and search more black youngsters—a technique long stigmatised as racist and repressive.

The line between legitimate and illegitimate expression is blurrier in Britain than it is in America, with its constitutional First Amendment, and becoming more so as the government strives to appease minorities by stopping people from offending them. But this outbreak of plain speaking shows again that giving offence—as Messrs Amis, Dawkins and Watson and even the policeman did—is too promiscuous a test of what ought and ought not to be said and printed. These incidents also confirm that, in debates about freedom of speech, people feel free to talk cant. Those who attacked Mr Amis had often not troubled to find out what he had said. The attackers, in turn, were lazily accused of censorship, as if taking issue with a statement were the same as denying the right to make it. Beyond this eternal debate, however, lie two questions about contemporary Britain.

Wordsmiths and biologists

First, who are the figures whose plain speaking provokes the most fuss? The answer to that seems to be, mostly, scientists and novelists; dramatists such as Harold Pinter and Sir David Hare tend to chip in on foreign policy. Religious leaders sometimes feature too: Sir Jonathan Sacks, Britain's chief rabbi, this week created a mini-stir by repudiating “multiculturalism”. Quite a lot of Britain's top controversialists, such as Christopher Hitchens or Salman Rushdie, seem to spend much of their time in America. But philosophers and political theorists, some of whom (Hayek, Berlin, Popper and so on) once bestrode public debate, these days scarcely get a look in.

Perhaps that is evidence of the preference for empiricism above abstraction that is sometimes said to be a British trait—whether the laboratorial empiricism of scientists or the lyrical kind of novelists. Perhaps the wilful obscurantism and dreadful English that now afflict humanities faculties in Britain as elsewhere have eroded their influence outside the academy. Probably the media are to blame, for taking up a few marketable clever-clogs such as Mr Dawkins, then encouraging them to comment on everything. Perhaps most strikingly, actual politicians rarely create such a rumpus—just as the likes of Mr Hitchens are bigger draws at public debates than mere ministers.

The second question is what sorts of plain speaking cause the most excitement. The answer is plain speaking about race, immigration and Islam, which seem to rouse the upmarket classes as much as the tabloid-reading ones. For reasons that include left-over imperial guilt as well as new anxieties about terrorism, the really galvanising arguments are sparked by this knot of issues. Another row will probably be reignited by the premiere on October 26th of “Brick Lane”, a much-disputed film-of-a-book that depicts Bangladeshi men in a less than flattering light. The film was supposed to have its premiere at the Royal Film Performance until the organisers chickened out (see article).

There is a subsidiary market in plain speaking on abortion and homosexuality, and on the mega-issue lurking behind them: God. But these tussles are much less exuberant than they are in America, where debates over religion are more urgent and intimate. In unbelieving, lapsed Britain, God is a polite puzzle more than an everyday challenge. On the other hand, questions about, say, the size of the state or the relationship between capital and labour are no longer exciting at all.

Three possible conclusions arise from this spurt of plain speaking. One is that novelists and scientists should perhaps try to avoid combustible topics beyond their areas of expertise. The other two are contradictory. It may be that Britain's wise politicians have solved all the big political and economic questions, leaving a largely contented population to amuse themselves with trifles. Or it may be that politicians are too cowardly to address the subjects of greatest concern, or too distrusted to generate much interest when they do.

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Minorities and legislatures

Must the rainbow turn monochrome in parliament?

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AP

Racial and religious minorities tend to be under-represented in legislatures

THE political representation of racial minorities troubles in almost every country, rich or poor. At one end of the income scale, Switzerland held an election on October 21st that turned on the treatment of foreigners—perhaps understandably in a country where a fifth of the population is foreign-born but which has hardly any minority members of parliament. At the other end of the scale, Sudan took a jolt recently when a party representing the black, mostly Christian south pulled out of the predominantly Arab and Muslim coalition that runs the government.

Every society is composed of minorities of one sort or another, but few people believe that left-handers, redheads, homosexuals or Elvis impersonators have a claim on any particular degree of representation in elected legislatures. In so far as racial minorities are different, it is because they more often suffer discrimination.

In general, minorities are indeed under-represented. A powerful group, such as South Africa's whites, may secure more seats in the legislature than their numbers might suggest. But that is an exception (see table). France is more typical. Although minorities account for about 12% of its population, only two of the 555 members of the lower house elected in metropolitan (non-overseas) France represent the country's blacks, Asians and North Africans. In many countries there seems little relationship between the size of a minority and how many legislators it has. Why so?

Out of kilter

Ethnic minorities, % of total, latest

Country	Parliament (lower house)	Population
Britain	2.3	9.5
Canada*	7.8	15.9
France	0.4	12.6†
Germany	1.3	4.8
Netherlands	8.0	10.9
New Zealand‡	21.5	31.5
United States*	15.9	31.0

Sources: Institut Montaigne; national sources *Excludes indigenous people †Estimate ‡Includes Maoris

Part of the puzzle is that people count minorities differently. Latin American immigrants are considered a minority in the United States, but not in Spain. More significant, though, are the differing characteristics of people who find themselves lumped together as “minorities” but have little in common except ethnic origin or membership of a religious group.

Ethnic minorities in a rich country might be classified, as in America, under the headings indigenous,

racial or newly arrived. They might equally be categorised as illegals, refugees or economic migrants. Each group behaves differently. Some, like America's Amish, may be reluctant to integrate. Some may also be uninterested in formal political representation.

In due course, though, minorities usually want to take a full part in the political life of their country. Inevitably, the obstacles in their way depend partly on the attitude of the majority.

The French, by and large, frown on both discrimination and special preferment. The Netherlands is more ready to promote minority representation. After the success of an anti-immigration party in the 1990s, the mainstream Dutch parties made great efforts to show how multicultural they were by putting up immigrants as candidates. Of the 11 parties in the Dutch parliament, seven now have minority MPs.

The attitude to politics of the minority group itself also matters. Nigel Roberts of the University of Wellington points out that in New Zealand the Asian minority outperforms the indigenous Maoris in terms of education, health and employment. But the Maoris, steeped in a tradition of political involvement, hold 17% of the parliamentary seats (higher than their 15% population share), whereas Asians, who account for 9% of the population, have less than 2% of the seats.

The Maoris have another advantage: seven seats (out of 121) are reserved for them. Such formal arrangements help to explain why some countries are more successful at involving minorities than others. India reserves nearly a quarter of the seats in its lower house for “scheduled castes” and “scheduled tribes”. In Romania 18 ethnic groups each receive a guaranteed parliamentary seat. Lebanon reserves the presidency for Maronite Christians.

Minorities' political participation is also affected by the ease or difficulty of gaining citizenship. Why does Canada's Parliament have so many more minority members than Germany's Bundestag? Partly because immigrants to Canada can apply for citizenship after only three years, whereas in Germany they need eight years plus a job. No wonder Canadian parties try harder to appeal to foreign-born voters.

The voting system can also make a difference. Andrew Reynolds of the University of North Carolina found in a survey of 31 countries that proportional representation (PR) tends to attract more minority candidates than first-past-the-post voting. One reason is that PR usually requires party lists, and it is easier to have minority candidates on a long slate than to choose a single nominee who must appeal to all the voters in just one constituency. In Britain's House of Commons, elected on the first-past-the-post system, 2.3% of the MPs are brown or black; but in Britain's delegation to the European Parliament, chosen by PR, the share is 6.4%.

Does any of this really matter? In an extensive study, the Minority Rights Group, a British NGO, found that, with the exception of Iraq, countries with the highest minority representation turn out to be those where minorities are pretty safe from political and military threats. That does not necessarily mean that more minority MPs will improve race relations. The causation may run the other way: minority politicians may win election when race relations are good. But promoting minority representation in legislatures is likely to reduce political alienation among minorities. That in itself can be no bad thing.

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The pope and labour law

Supererogation stops here

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From The Economist print edition

Benedict wades into market economics

Get article background

WHAT is the link between call centres, fast food and His Holiness Pope Benedict XVI? Until October 18th, the answer would have been, “None.” But in a message that day the pope launched an attack on the short-term job contracts that underpin many modern enterprises. Barely reported outside Italy, his words will nevertheless filter down to believers and may have a long-term effect.

Contracts that do not ensure stable employment, said the pope, are among the “ethical and social emergencies capable of undermining the stability [of society] and seriously compromising its future”. His objection was not that these contracts brought rock-bottom wages and long hours, but that they “did not permit young people to build a family”.

Ever since 1891, when Pope Leo XIII published his encyclical “Rerum Novarum”, the Vatican has steered an often wobbly course between the whirlpool of socialism and the rock of capitalism. Benedict's remarks seem an abrupt tack towards the froth and spume. Perhaps aware of the risks, Monsignor Giovanni D'Ercole, a senior Vatican official, insists that the pope was not attacking specific legislation but rather unstable forms of employment that were obstacles to the “true well-being of humanity”.

Gauging the impact of papal pronouncements is not easy. Millions of otherwise dutiful Catholics ignore the Vatican's teaching on contraception. But Benedict's opinions could act as a hidden brake on labour reform in southern Europe and countries like Poland, Hungary and Ireland, where the Catholic church is influential. Paolo Ferrero, Italy's social-affairs minister, has already expressed his approval and will no doubt use Benedict's comments in a campaign to roll back a 2003 labour-market reform. In South America they will be welcomed by leaders such as Hugo Chávez.

The devout, though, may also care to reflect on the parable of the workers in the vineyard (Matthew 20:1-16). This describes how an employer recruited labourers on (very) short-term contracts and paid them equally, regardless of their hours. The evangelist did not demur. But Benedict, presumably, would not have approved.

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International justice

Closing in

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Ever more suspected war criminals are being arrested

FIRST get your man. All the efforts to deter tyrants, warlords and genocidal murderers by setting up international tribunals will come to nothing if the suspects cannot be arrested. Without any form of enforcement mechanism of their own, most of the new courts have always known this. Yet slowly, if not surely, they are pulling in the suspects.

Germain Katanga, also known as “Simba”, is the latest catch. The alleged leader of the Patriotic Resistance Force in the north-eastern Congolese province of Ituri has been arrested and transferred to the International Criminal Court (ICC) in The Hague. He is only the second person to be handed over to the world's first permanent war-crimes court since it was set up in 2002. Thomas Lubanga Dyilo, another Congolese presumed to be a warlord, has been in the court's custody since March 2006. He was already in prison in Kinshasa, Congo's capital, when charged.

AFP

Katanga's mind concentrated

Of the seven others indicted by the ICC, four leaders of the Lord's Resistance Army, a rebel group in northern Uganda, are still on the run two years after warrants were issued for their arrest; a fifth has been killed. And the two other suspects, a Sudanese minister and a *janjaweed* leader, are unlikely to be caught soon, given Sudan's refusal even to recognise the court.

But Charles Taylor's impending war-crimes trial should have put the wind up a few despots. After three years of comfortable exile in Nigeria, the former Liberian president was handed over to a UN-backed Special Court last year. His trial is due to start in The Hague on January 7th.

Much has been made of the failure of the international war-crimes tribunal for ex-Yugoslavia to catch two Bosnian Serb leaders, Ratko Mladic and Radovan Karadzic. Both have been on the run for 12 years. Less has been said about the court's success in arresting all but four of the 161 men it has indicted. The Rwandan tribunal's record is only slightly less impressive. Of its 90 indicted suspects, just 14 are at large. One was caught in France last week, another in Germany last month, and the search continues for the rest.

Meanwhile, ordinary courts are showing less indulgence towards the high and mighty. Last month Chile's Supreme Court ordered the extradition to Peru of Alberto Fujimori, a former president of Peru, on charges of corruption and human-rights abuse. In Uruguay a federal appeals court confirmed charges of multiple murder against Juan María Bordaberry, the country's former president. An American court ordered the extradition of Manuel Noriega, Panama's ex-dictator, to France to serve a ten-year sentence for money-laundering. And Nuon Chea, “Brother Number 2” of the brutal Khmer Rouge regime in Cambodia in the 1970s, was arrested and handed over to the new UN-backed war-crimes tribunal in the country's capital, Phnom Penh. The noose tightens.

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Telecoms-equipment makers

Toughing it out

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Illustration by David Simonds

The future will be difficult for incumbent telecoms-equipment makers, but things are not as bad as they look

PATRICIA RUSSO, chief executive of Alcatel-Lucent, a troubled Franco-American maker of telecoms equipment, is regularly listed in American magazines as one of the world's most powerful businesswomen. In Parisian business circles, however, there is speculation about her being on her way out. Next week may well decide her future. On October 30th she is due to present Alcatel-Lucent's board with further details of her plan to improve the company's performance. A day later, Alcatel-Lucent will release its quarterly results, which are likely to be ugly. In September the company disappointed investors with news that its revenues would barely grow and that there would be no operating profits to speak of in the third quarter—its third profit warning this year.

At first, telecoms analysts thought Alcatel-Lucent's problems were merely the travails of a recently merged company. But last week Ericsson, Alcatel-Lucent's main rival and a darling of the sector, shocked investors when it announced a fall of 36% in quarterly earnings. This week it replaced its chief financial officer. Now people fear the whole industry may be in deep trouble.

Certainly forces are at work which will make life difficult for the vendors of telecoms gear. First, the market for wireless networks is beginning to mature. After years of bumper profits, telecoms operators are facing more competition and are having to cut costs. In America carriers have delayed purchases, which explains much of what went wrong for Alcatel-Lucent. In Europe operators are increasingly renting their networks out to virtual service providers and are sharing capacity. That has allowed them to delay network upgrades which would otherwise have boosted Ericsson's and other telecoms-equipment firms' earnings.

Second, Western firms face competition from two Chinese companies, Huawei and ZTE. In 2006 Huawei had revenues of $8.5 billion, up 42% from the year before. ZTE has grown even more quickly, and had revenues of $2 billion for the first half of 2007. The firms' low cost bases allow them to offer prices up to two-fifths lower than their Western competitors'.

A third headache for established telecoms-equipment firms is that some of their product is becoming commoditised. This makes it easier for newcomers, such as the Chinese, to build cheap alternatives. But the trend should not be exaggerated. As Alcatel-Lucent's Michel Rahier points out, the industry's hardware will never become as much of a commodity as personal computers have done because more of its equipment is highly complex. And neither Chinese firm is any match for Western vendors when it comes to building sophisticated telecoms networks.

Furthermore, Western telecoms vendors are working hard to get out of their bind. One strategy is to move into a different area—the selling of software and services to telecoms operators. The software allows operators to create new offerings for consumers. The services help them build and run their networks.

To cope with competition from Chinese companies, telecoms-equipment firms are moving big chunks of manufacturing and research and development to countries with cheap labour costs, including China itself. More than a quarter of Nortel's 12,000 engineers, for instance, are in China. Because of these global R&D networks, argues John Roese, Nortel's chief technology officer, Huawei's and ZTE's cost advantage is no longer what it was.

In the short term, the health of telecoms-equipment makers will depend largely on whether changing patterns of demand play to their strengths. If wireless carriers start upgrading their networks again, for instance, because consumers spend money on bandwidth-hungry data services such as music-downloading, Ericsson's profit warning would be forgotten. Demand for fixed-line gear, the least sexy bit of the industry, has already picked up. Operators are upgrading their networks in order to offer, among other things, “triple play” products with telephone, broadband internet and television. This part of Alcatel-Lucent's business should provide some good news when the firm announces its results next week.

In the longer run, much will depend on which technology will be used for the next generation of wireless networks. WiMax, a standard supported by the computer industry, is supposed to make wireless networks much cheaper to build and operate. Nortel has made a big bet on this technology. It recently made headlines with accounting problems, but would look much better if WiMax gains traction. If, instead, carriers continue to build 3G networks, the future could be Ericsson's. The firm is backing a long-term project called Long Term Evolution, which is more similar to existing mobile phone standards.

For now, though, the biggest question is what will happen at Alcatel-Lucent. To restore profitability, some analysts say it will have to lay off at least twice as many employees as the 12,500 it already planned to fire as part of its merger. Others say it will need to sell its troubled 3G wireless business. Whether the task falls to Ms Russo or someone else, Alcatel-Lucent's boss has a long slog ahead.

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Economist.com BUSINESS

Business and human rights

Doing the wrong thing

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Human-rights activists fall out over how to deal with companies

MANY human-rights activists believe that it was their protests at the annual meeting of Berkshire Hathaway, a financial company controlled by Warren Buffett, that prompted the sale of its 11% shareholding in PetroChina. After all, why else would the investment genius have taken such a bad financial decision? Although he made a profit of $3.5 billion when he sold the shares in the Chinese oil company, which activists accuse of indirectly funding the genocide in Darfur, PetroChina's share price has since continued to soar.

The role that business plays in promoting—or abusing—human rights has never been under such scrutiny. As well as Darfur, the uprising in Myanmar has revived criticism of foreign multinationals operating there, such as oil giants Chevron and Total. Meanwhile, more than 3,500 companies have signed up to the United Nations Global Compact, which includes a commitment to uphold the UN Declaration on Human Rights.

Centre for Business and Government

At the centre of the storm

With the wind in their sails, it seems an odd moment for human-rights activists to fall out about business. Yet that is what has happened. The focus of the dispute is the work of John Ruggie, the UN secretary-general's special representative on human rights and transnational corporations. The Global Compact is thin on detail, and Mr Ruggie has been asked to write something stronger for the 60th anniversary of the UN Declaration next year. Earlier this month, 151 non-governmental organisations (NGOs) and other activists, including Amnesty International and Human Rights Watch, sent an open letter to Mr Ruggie, which his supporters see as an attack on their man and his strategy.

The letter, if listened to, “threatens to set back the cause of human rights in the corporate sector many years”, thundered Sir Geoffrey Chandler—who until recently ran Amnesty's Business Group in Britain and formerly worked for Shell, an oil firm—in a letter of his own. Sir Geoffrey says that some of the 151 signatories want to pursue a confrontational approach to business, rather than engage with companies. That is a shame, he says, since it is “abundantly clear that if we wish to see human rights prevail in the world, we will not do so without the positive involvement of companies.”

Some NGOs do want to work with business. Global Witness, for instance, which is not among the 151, has seconded a member of its staff to work with Mr Ruggie on drawing up guidelines for how companies should behave in conflict zones. Widney Brown, senior director of international law, policy and campaigns at Amnesty International, says that the differences are exaggerated. Amnesty believes both in naming and shaming and in dialogue, she says, and it simply wants legislation that is binding on companies in addition to Mr Ruggie's voluntary guidelines.

In mid-October however, Amnesty's British business group voted to dissolve itself, which insiders see as a sign that the NGO is hardening its line. Its business group previously helped Shell and BP draw up internal guidelines on human rights in the mid-1990s. Shell had been vilified for standing by as the Nigerian government executed an activist who protested against the oil firm, and BP had attracted criticism because the government-employed Colombian paramilitaries who guarded its pipeline also terrorised local people. Exposing companies rather than engaging with them, Chris Marsden, the business group's chairman, wrote in an internal memo, “may be seen by traditionalists as the right thing for Amnesty to do but it does go against all the lessons learnt through the work of the UK and other business groups.”

Public confrontation may be easier for an NGO to sell to its supporters than the moral ambiguities of

engaging with the corporate world. But the risk is that a public squabble among NGOs could prompt the UN to put Mr Ruggie's work on the back-burner. If that happens, companies may in the end come under less pressure to respect human rights.

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American food companies

War and apple pie

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Did America's big food companies overcharge the troops?

FEW companies volunteer to serve food to troops in war zones because it is so dangerous. Thirty of the employees of the Public Warehousing Company (PWC), a Kuwaiti firm that provides food for the American army in the Middle East, have been killed and 200 injured, mainly in attacks on convoys. But lots of companies want to supply PWC: it is not dangerous, it can be very lucrative and American firms consider feeding the boys and girls in the battlefield a badge of patriotic honour.

The only risk that big American food companies such as Sara Lee, ConAgra Foods, Perdue and other makers of food for the troops in Iraq are taking is to their reputations. So when federal investigators approached them at the beginning of the year because they suspected them of overpricing their food to the army, Sara Lee and the others were alarmed. They worried more in April when Tyson Foods, one of the world's largest producers of chicken, based in Arkansas, complained to a defence agency that its rivals were receiving preferential treatment.

Tyson Foods claims that the Army Centre of Excellence, Subsistence (ACES), an army agency in Fort Lee, Virginia, tends to award the vast majority of food-supply contracts to companies which have retired military personnel in charge of relations with the American army. It also says that the way in which ACES selects not just foods but particular brands is inappropriate. While soldiers might well prefer Heinz ketchup and Cheerios cereal, they can hardly be fussy about labels when it comes to pieces of raw chicken.

At Sara Lee, for instance, Paul Simmons, an ex-army officer, is in charge of food sales to the armed forces. He negotiates with David Staples, a top procurement official at ACES, who used to work at Sara Lee's sausage subsidiary. Mr Staples's predecessor at ACES was Emily Prior, who was subsequently hired by Quantum Foods, a meatpacking firm in Illinois that provides most of the beef for American troops in Iraq and Kuwait. Ms Prior also represents Perdue, a poultry company that supplies much of the chicken for troops in Iraq. “Government officials frequently switch to a job in the private industry and vice versa,” says Jon Harris, a spokesman for Sara Lee. So far, there seems to be no damage to the food companies as a result of the investigation. “It's not something I think about when looking at the stock,” says a retailing analyst in New York. That could change as the probe continues.

The real focus of the government's investigation seems to be PWC, which is suspected of pocketing refunds received from American food suppliers which should have gone to the army. Officials claim that it failed to shop around for the best value. They also say that it favours The Sultan Center, a Kuwaiti retailer which partly owns PWC, over other sources of fresh food in the Middle East.

PWC answers that it receives so-called “prompt payment” discounts if it pays suppliers within a short period of time, which is standard industry practice. It says that the American army asks for specific brands for about half of its orders. “We cannot set the price of producers”, says a spokesman. The Sultan Center is the “clear choice” as supplier of perishable food because few companies in the region can provide the range and vast quantity of food required. Whatever the outcome of the investigation, the army will struggle to find another caterer for its troops in Iraq.

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Alibaba

Magic-carpet ride

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The China bubble bumps into the dotcom bubble

BOTH China and the internet have a habit of going to the heads of investors. So perhaps it was inevitable that these two intoxicants would be combined in a single company. Alibaba is the world's most popular business-to-business (B2B) online marketplace. Its two best-known sites allow foreign buyers to find Chinese suppliers, and Chinese companies to trade with each other. Now the company is eager to trade a bit of itself. This week it priced its public offering on the Hong Kong Stock Exchange. Up to 19% of its shares will be quoted on November 6th.

Huge demand pushed up the pricing of the deal by a third. The company now hopes to raise $1.7 billion, which would value it at $9 billion, or more than 100 times this year's earnings. The firm's biggest asset is perhaps its founder, Jack Ma. Mr Ma is everything that most Chinese entrepreneurs are not. Charismatic, plain-spoken and accessible to the press, he has parlayed a bold idea, a huge marketing budget and laudatory clippings into a business that has a large following and an eye-popping valuation.

Does Alibaba merit its price? If it could smooth all the pitfalls of Chinese procurement, it would deserve even more. But no website can do that. Fears about quality, safety and counterfeiting still worry wholesale buyers, who have to do a lot of offline work to satisfy themselves that a supplier is capable and trustworthy. As a result, once buyers have found a supplier they like, they tend to stick with it, rather than searching again when they have a new order to place. Firms involved in Chinese supply-chain management were once terrified by the idea of Alibaba. But their concern has faded as the demand for hands-on procurement has grown.

Alibaba hopes its position as the leading marketplace will allow it to sell more lucrative services on the side. Its members can subscribe to software, known as Alisoft, which handles their finances, inventories and customer information. But Alisoft is not included in the Hong Kong offering. Investors do not seem to care. The one product Alibaba can unquestionably shift at the moment is its own shares.

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Internet firms

Friend accepted

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Microsoft will pay any price to keep some things out of Google's hands

Get article background

EARLIER this month, Steve Ballmer, chief executive of Microsoft, the world's largest software company, suggested that online social networks such as Facebook were probably “fads”. So they may be, but Mr Ballmer was simultaneously throwing himself into talks with Facebook, founded by 23-year old Mark Zuckerberg, to buy a share of the firm. On October 24th he succeeded. Microsoft will pay $240m for 1.6% of Facebook. That is a very small stake, but it nonetheless values the three-year-old firm at $15 billion, an amount that experts think is mad.

Microsoft clearly thought that it had no choice. For about three years, it has realised that while software-licence fees are its past and present, its future has to be online advertising—even though Google, the world's largest search engine, is the clear leader in this young industry. Microsoft has built its own online-advertising network, called adCenter, to try to compete with Google's.

Reuters

Mark the Mogul

The software giant then searched for acquisitions or alliances that would boost its ad inventory, but Google kept swooping in and spoiling its deals. Thus it was Google, not Microsoft, which got a stake in AOL, the internet arm of Time Warner. Google also won the deal to supply advertisements on MySpace, the world's largest social network. It bought YouTube, the most popular video site, and most recently acquired DoubleClick, an online-advertising firm. As the number of potential partners dwindled, Microsoft got desperate.

In May, Microsoft bought aQuantive, an online-advertising agency, for $6 billion—its largest acquisition ever. Then it tried to get Facebook, but realised that Mr Zuckerberg wanted to keep control. But Facebook needed more capital. Meanwhile, Google was circling, so Microsoft became generous with both price and terms. The deal's immediate benefit for the software firm, apart from keeping Facebook away from Google, is that it deepens the advertising alliance between the two companies. Last year they made a pact under which Microsoft would guarantee a certain amount of revenue to Facebook in return for being its exclusive broker of American banner advertisements. Now, as part of this week's deal, Microsoft will become Facebook's sole broker for international advertisements too. That may give Microsoft's adCenter service a chance to become a proper rival to Google.

Mr Zuckerberg and Facebook's other early investors, of course, have carried off the biggest victory. Mr Zuckerberg is now worth some $3 billion on paper. Google will not suffer much. Its seemingly endless rise continues. Its own social network, Orkut, does well in emerging markets and is about to get a revamp that may make it a stronger rival to Facebook. It is Google's and Microsoft's other rival, Yahoo!, which now looks really forlorn. It has been outmanoeuvred by everybody in the acquisition game. It keeps losing to Google in search and advertising, and unlike Microsoft it has no software-licence revenues to fall back on. Last week it shut down its own social network, Yahoo 360°, and hardly anybody noticed.

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Economist.com BUSINESS

The pharmaceutical industry

Beyond the pill

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Drugs firms are casting about for new business models

Get article background

“THE future is not terribly bright for most drug companies,” says a new report from Sanford Bernstein, a respected New York investment firm. Such blunt talk is unusual on Wall Street, but it is no exaggeration. Drugs firms, once rich and the favourites of investors, are urgently seeking cures to a variety of ailments.

One is the erosion of patent protection. Not only are the copy-cat manufacturers of cheaper generic drugs becoming emboldened by cost-conscious politicians and legal rulings in their favour, but big pharmaceutical companies are also facing an unprecedented wave of patent expirations over the next five years. Pfizer alone will lose some $13 billion in revenue a year when Lipitor, its blockbuster cholesterol drug, goes off-patent as early as 2010.

The industry's best hope lies in innovation, its traditional strength. But it is finding it extremely difficult to come up with new blockbusters. As the Bernstein report notes, the global industry saw 24 new drugs approved by the US Food and Drug Administration in 1998 on the back of $27 billion spent on R&D. Last year, the industry spent $64 billion, but only 13 new drugs were approved by the regulator.

And even new drugs can no longer reliably command the huge premiums they once did. Peter Lawyer, of the Boston Consulting Group, reckons the global drugs market doubled in value to $600 billion in revenues in the decade to 2005, chiefly from growth in America. But there is little chance it will double again by 2015, he argues. If America were to adopt European-style controls on drugs prices, as some Democratic presidential candidates are proposing, half of the industry's profits would disappear.

Drugs are also being pulled from the market. Usually this is for safety reasons, such as those which last year forced Pfizer to kill torcetrapib, an experimental cholesterol drug, after spending $1 billion on it. Traditionally, drugs firms did not yank products that were safe even if they sold poorly. But now that has changed. Jeffrey Kindler, Pfizer's boss, decided to wield the axe as part of his drive to reduce costs and last week pulled Exubera, an inhaled insulin product, off the market. For this, Pfizer took a $2.8 billion charge.

So what can Big Pharma do? Mr Lawyer thinks the deterioration in the American market will force drugs firms to come up with new business models that go beyond the industry's traditional and largely vertically integrated approach to developing, manufacturing and selling drugs.

A sign of this happening is a recent move towards outsourcing. When times were good, drugs firms refused to outsource manufacturing because doing so, they argued, would result in quality problems and risk giving away trade secrets. That strategy is being rethought. AstraZeneca, a big British drugs firm, recently announced that it will start shifting manufacturing operations to Asia as part of a cost-cutting drive.

Firms are not only changing how they make drugs, but how they market them—especially in America. On one estimate, big drugs firms spend less than a fifth of their revenues in America on R&D, but over a third peddling pills. Raymond Hill, of IMS Health, a consultancy, says that firms too often “differentiate pills using sales reps” rather than by superior innovation. That, he says, needs to be reversed.

Bosses of drugs firms now publicly acknowledge the problem. Daniel Vasella, chairman of Novartis, a Swiss drugs giant, agrees that his industry must innovate or risk falling into a low-margin ghetto of commodity pricing. Last week he announced a shake-up to help Novartis do so. “We must rethink all assumptions, from innovation to marketing to sales and promotion,” he says.

To hedge risks in prescription drugs, Dr Vasella wants to grow his firm's generics division, as well as

increase its presence in diagnostics, non-prescription drugs and biotechnology. Novartis recently decided to launch a generic version of Epo, a popular drug pioneered by Amgen, an American biotechnology firm, in Europe—the sort of cheeky move usually seen only from generics firms.

Lots of big drugs firms are moving into biotechnology to fill their product pipelines. Earlier this year Astra Zeneca bought MedImmune, an American biotechnology firm, for about $16 billion. A takeover battle may soon erupt over Biogen Idec, another large American biotech firm.

Roche, another Swiss firm, has made a hostile bid for Ventana, a medical-diagnostics company in Arizona, and other firms are moving in on makers of medical devices and non-prescription drugs. Terry Hisey of Deloitte Touche Tohmatsu argues in a new report that such deals go beyond hedging risks in their traditional businesses: he reckons it heralds a dramatic new “convergence of drugs, devices and diagnostics” which could lead to innovation and new opportunities for growth. If he is right it would be good news indeed for an industry sorely in need of rejuvenation.

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Face value

That's not all, folks

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A fallen German media mogul wants to be a player again

AFP

LEO KIRCH, one of Europe's most powerful media moguls until his empire collapsed in 2002, is making a comeback at the age of 81. He used to run the Kirch Group, whose network of interlocking companies owned five free television stations, a pay-TV company, the biggest library of German films and an agency that sold the rights to sporting events. Outside television it had 40% of Axel Springer, which publishes *Bild*, Germany's most popular newspaper, and control of SLEC, then the operator of Formula One motor racing. “The Lord giveth, and the Lord taketh away,” he said, philosophically, after his company went under in Germany's biggest post-war bankruptcy.

Since then, Mr Kirch has shut himself away in his office and worked all hours of the day, according to those who know him. He has diabetes and problems with his eyesight, and most people thought he was putting all his energy into suing Deutsche Bank, which he has accused of pushing his empire into insolvency in 2002. But Mr Kirch was quietly manoeuvring. In September he took a 11.5% stake in EM.Sport Media, a media firm. On October 9th, to everyone's amazement, he announced a big deal with the German Football League (DFL). In reality, says one of Mr Kirch's colleagues, “he's never been away.”

Like Rupert Murdoch, another ageing media mogul, Mr Kirch reckons the future lies in new media. He and former colleagues have agreed with the DFL jointly to sell media rights for football games in the two top divisions for six years from 2009. He has promised the DFL at least €500m ($715m) a year in revenue, a big improvement on the €420m or so that it expects to make this year by selling television rights. Mr Kirch believes he can boost the DFL's returns by selling football not only to live pay-television channels but also as ready-made packages of content for mobile and internet firms. He, of course, stands to profit handsomely. According to press reports, his company will get 90% of the first €100m the football fetches above €500m, and 51% of anything above that.

Many Germans regard Mr Kirch as the father of superstar football. It was he who first put big money into the pockets of managers and players. Some football fans, of course, wish he hadn't. Supporters of FC Kaiserslautern, for instance, which fell from the first division and now faces relegation from the second, believe that he spoilt their cheery local team, giving it delusions of grandeur and leading it to buy players and a stadium far beyond its means. But among leading football managers the old gunfighter seems to have kept his magic. Only one of the DFL's 36 first- and second-league clubs, HSV Hamburg, is said to be opposed to the DFL's new deal.

How not to impress the bank manager

Germany's monopoly commission, the Bundeskartellamt, favours change in the handling of football rights because at the moment, Premiere, a pay-TV firm, owns all the rights until 2009 and has a near-monopoly. But the Kartellamt is still expected to examine whether the deal with Mr Kirch will encourage or discourage innovation. A bigger problem for Mr Kirch is how to obtain a bank guarantee, which the DFL requires. Most lenders are still smarting from his spectacular collapse, which left debts of around €6.5 billion. The insolvency proceedings are still dragging on: the liquidator has recovered over €1 billion from asset sales and paid out €300m. Despite this unfinished business, Commerzbank, Germany's second-biggest bank, is thinking of giving him a guarantee.

A bank that probably will not is Deutsche. Mr Kirch's lawyers have filed claims totalling €3.5 billion against the bank. They argue that remarks by Rolf Breuer, who was then spokesman and chairman of the group executive committee, in February 2002, pitched the Kirch Group into bankruptcy. Mr Breuer had said that the group would have trouble raising money on the same terms that it had before. Several courts have dismissed the claims, and a criminal case against Mr Breuer was dropped last month in Frankfurt. But the Federal Supreme Court in Karlsruhe ruled in January 2006 that Mr Breuer's remarks may have damaged one company in the Kirch Group, PrintBeteiligungs GmbH, to which Deutsche Bank had made a €1.4 billion loan.

In some ways, the new venture gives a strong sense of déjà vu. As with Mr Kirch's former empire, his name seldom appears on any documents. The company which made the deal with the DFL is Sirius, a subsidiary of KF 15 GmbH & Co KG, a name based on the address of Mr Kirch's office in Munich. His wife, Ruth, and his long-time business partner, Dieter Hahn, are named as owners. And Mr Kirch seems to be trying to build a complex network of companies, as before. His 11.5% stake in EM.Sport Media is separate from his deal with the DFL, but EM.Sport Media is a likely bidder for some of the football rights jointly marketed by DFL and Sirius.

The cast of characters deployed in the companies around Mr Kirch's new deal reads like a “Who's Who” of his former comrades: Werner Klatten, chief executive of EM.Sport Media, and Rainer Hüther, a director there, both worked for Kirch Group companies. Christian Seifert, managing director of DFL, was an old sparring partner of his at MGM and other media firms.

The question now is whether Mr Kirch can really squeeze more cash out of football by delivering content for internet sites and mobile phones. Even on old-fashioned pay-television, the jury is out on how much money is to be made from live league football. Premiere ended up owning all the rights, after all, because Arena, a rival rights holder, failed to win enough viewers and had to give them up. If football's exclusivity is diluted by internet and mobile-phone deals, pay-television firms may bid less. Observers are wondering if history will repeat itself: might Mr Kirch overreach himself again?

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Financial markets

Spooking investors

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Bill Butcher

Financial markets remain on edge because the credit crunch has not been solved

LIKE young Halloween revellers, investors spent years grabbing all the candy, in the form of high-yielding bonds and loans. That binge ended in spectacular fashion with August's credit crunch, as investors suddenly decided the high-yield treats were worth less than they thought. But two months on, the credit markets still look decidedly sick.

On October 24th Merrill Lynch reported its first quarterly loss for six years thanks to huge write-downs by the investment bank of $8.4 billion. Worries about more such losses have made markets jittery. “We're now in a state of fear,” is how Alan Greenspan, the former Federal Reserve chairman, described it at a conference this week.

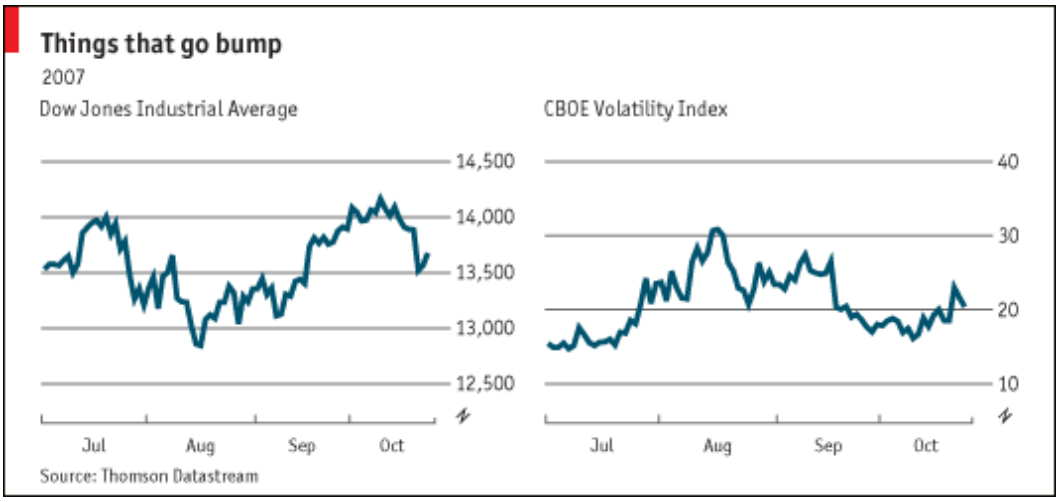
The big question is whether the current mood is temporary, as investors digest their high-yield excesses, or whether the sickness will prove a more lasting malaise. Much depends on how America's housing bust plays out. Like a toffee apple with a maggot inside, the debt markets have been tainted by their links with America's subprime mortgage crisis. Those loans to dodgy borrowers have been bundled up into fancy financial vehicles known as structured products, and it is proving hard to sort out the mess.

But it is also clear that the financial system is less sound than it seemed. Conventional wisdom held that the process of slicing debts into numerous structured products dispersed risk and thus reduced it, especially for banks. But it turns out that the risk that banks ushered out of their front doors sneaked in again through the back. This is because the new owners of structured assets are either big clients of the banks or have borrowed from them.

Furthermore, structured finance's dependence on leverage and illiquid assets has left it prone to crisis. New institutions, such as hedge funds and conduits—what Paul McCulley, of Pimco, a fund management group, has called “the shadow banking system”—are highly dependent on borrowed money, or leverage. And they are also highly attracted to illiquid assets, which offer outsize returns. But when markets turn, those institutions are caught on a hook: they are forced to cut their borrowings but find it difficult to sell assets. And if they receive only rock-bottom prices, they may be forced out of business. That is why what seemed like a liquidity problem may turn out to be one of solvency.

In many ways, the structured-debt malaise stems from success, particularly that of central banks. Their record of taming inflation, moderating recession and riding to the rescue whenever financial crises threatened has encouraged investors to take risks, in particular to lend to less creditworthy borrowers and to invest in illiquid assets. This trend can be self-reinforcing. When risky borrowers find it easy to get

credit, they are less likely to go bust, which makes them appear less risky. And when lots of investors buy illiquid assets, trading volumes increase, making the assets seem more liquid.



Borrowing to invest in higher-yielding or risky assets is one form of the “carry trade”. This was the strategy of obscure bodies known as structured investment vehicles (SIVs) and conduits. They borrowed short-term and invested the proceeds at a higher yield, often in complex products linked to bundles of loans. The margin was their profit. Such assets offered an excess return to compensate investors for their illiquidity.

Both high yields and illiquid assets are also attractive to hedge funds, which have become the rising powers of the fund-management industry. Because of the high fees they charge, hedge funds need to make big gross returns to deliver decent net returns to their clients.

Historians of the financial markets will recognise that what the SIVs and some hedge funds were doing was, at heart, the oldest game in the business: borrowing short and lending long. The strategy depends on the continual ability of investors to renew their funding or to sell their assets (at a decent price). When one part of the equation goes wrong, so does the other: if investors in general are unable to obtain funding, there will be few willing buyers.

Things duly went wrong in August. Both the credit and money markets became frozen, while in the stockmarket, computer-driven trading models that had worked for years suddenly failed (see article). At the same time, it became clear that the modern financial system had dispersed risk much less successfully than people believed.

Many of the most dubious assets were, indeed, held by hedge funds. But most hedge funds obtain their finance from the banks and 60% of hedge-fund assets are handled by three prime brokers (all of which are big investment banks). In addition, hedge funds own the same assets as banks' trading desks. This means that when the hedge funds are forced to sell, the trading desks are likely to lose money.

Similarly, the SIVs and conduits were not wholly independent of the banking system. Conduits were “off balance-sheet vehicles” that allowed banks to be exposed to complex bonds without requiring them to hold reserves against them. Many SIVs were operated by banks, had banks as investors or had arrangements to call on bank financing when their conventional sources of liquidity failed.

Anorexic models

Don't banks and hedge funds employ mathematical geniuses who develop highly sophisticated models to control these risks? They do, but they have a difficult task. The standard statistical approach to risk management is based on a “bell curve” or normal distribution, in which most results are in the middle and extremes are rare. It is the bell curve to which investors are referring when they talk about a “nine standard deviation event”. But financial history is littered with bubbles and crashes, demonstrating that extreme events or so-called “fat tails” occur far more often than the bell curve predicts.

In a fat-tail world it is very hard to monitor how much risk you are taking on. Many banks use a “value at risk” approach, which tells them the maximum daily loss a portfolio might face, based on measures of past

volatility. This requires a trader to cut his positions when volatility rises. But if all traders are trying to do the same, volatility will rise even further, well beyond the limits the models suggest.

The same difficulty faces investors who control their positions on the basis of daily market volumes. Ideally they want trading to be heavy so they can sell without shifting prices against them. When times are good, volumes are usually high; but when times are bad, they can be non-existent.

That suggests models should have been built on the assumption that liquidity can disappear overnight. But apart from the mathematical complexities involved, that would have created another difficulty. In the short term those using conventional models would take greater risks and earn higher returns for their clients. The cautious firm would lose business and see its star employees lured away to firms that can pay bigger bonuses. By the time the crisis occurred, and the cautious firm was proved right, it could be too late.

Investors accordingly assume that markets will stay liquid or that they can exit before anyone else. In August they found out how wrong that assumption could be. “It turned out that only two markets were truly liquid: German-bond and US-Treasury futures,” says Manoj Pradhan, a fixed-income analyst at Morgan Stanley.

The world is still sorting out the mess. This week Royal Bank of Scotland entered into exclusive talks with a struggling SIV, a $6.6 billion fund run by Cheyne Capital, which may result in a refinancing.

On a grander scale, there are plans for a $100 billion bail-out fund known as the super-SIV. Backed by four American banks it plans to acquire assets from so-called “orphan SIVs”—those without bank backing. If forced to unload their assets all of a sudden, these “orphan SIVs” could cause a sharp drop in prices. That would force other investors to lower their balance-sheet valuations, making the crisis worse.

What is not clear, in either case, is whether the device will solve the problem. The hope is that the super-SIV, in particular, will improve confidence by setting a market price for the fund's assets. However, the super-SIV intends to buy only the most creditworthy notes from other SIVs, leaving them stuck with the rest, euphemistically known as “toxic waste”.

Furthermore, the super-SIV seems to embody a contradiction. In August the worry was that banks were overexposed to SIVs. The new fund will only extend their exposure. If the mortgage-backed market does go to hell in a handcart, the banks will have an even bumpier ride.

That raises the question of whether SIVs and conduits ought to exist at all. “It's not clear that the business model of SIVs and bank conduits can survive in the current form,” says Mark Benson, of CQS, a hedge-fund manager.

With the picture so blurry, investors will remain nervous. The cost of insuring high-yield debt against default rose by the biggest amount in one day since late July on October 19th. The spread (excess interest rate) paid by high-yield borrowers is only around half a percentage point lower than it was at the height of the crunch.

Thundering to blundering herd

Merrill Lynch's disastrous third quarter indicates more trouble might be in store. Its results encompass a difficult period in September, unlike those of other Wall Street banks, which reported earlier. That suggests their fourth-quarter numbers could be bad, too. Many of the write-downs related to “super senior” AAA-rated securities, indicating even the best structured products are not very good.

Just as the housing market was dependent on subprime borrowers, the structured-debt markets were dependent on subprime investors. Both were too reliant on borrowed money, and suffered when their ability to borrow was taken away.

This crunch in structured debt could still undermine the global economy, by prompting a broader tightening of credit conditions that chill consumer spending. Alternatively, if the economy deteriorates before the credit problem is solved, the damage to the financial sector could be immense. As the Bank of England's latest financial stability report warns, “In the short run, the financial system in the advanced economies remains vulnerable to new shocks.” Never mind the ghosts and goblins; it is the credit crunch that should keep investors awake at night.

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EU securities regulation

Big headache or Big Bang?

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Illustration by Satoshi Kambayashi

It has an awful name and a lousy image, but a new securities law introduced next week could stir up trading across Europe

ATTEMPTS by Brussels to reform anything are not often greeted with shrieks of joy in the finance industry; the more usual reaction is either boredom or bitter complaints from those developing an unwanted intimacy with the compliance department. The reaction to a new law on financial markets, due on November 1st, has elicited more than its fair share of grumbling by the banks since negotiations began in 2004. Yet the bureaucrats seem to have got it right this time.

The law, which goes by the mind-numbing name of MiFID (the Markets in Financial Instruments Directive), in effect creates a common market for share, commodities and derivatives trading across 30 countries in Europe. Some giddy-headed observers have even described it as Europe's “Big Bang”, a reference to the reforms that transformed London's financial universe over two decades ago.

“Big Bang” or not, expect dramatic changes. The new rules end the monopoly (albeit a waning one) of national stock exchanges over share trading and throw open the field to newer electronic exchanges and even the big investment banks. Until now, some countries (such as Poland, the Czech Republic and Hungary) still required trading to take place over the national exchange. Others, such as Britain, have long been more liberal.

Handed an effective monopoly like the utility companies of yore, the protected exchanges took full advantage, charging everything from fat fees on membership to hefty tariffs on each trade. Even in more liberal regimes, over-the-counter trades have had to be reported to the exchanges. The exchanges charge members for the privilege of doing so and then, to add insult to injury, levy members again for access to those data in “real time”.

The new law dismantles each one of those monopolies at a stroke. First, it forces brokers to provide what it calls “best execution” for their clients. On the face of it, this sounds like inconsequential waffle, and most of the opposition from banks stems from the fact that it brings huge compliance costs.

In the long run, however, it may work in the interests of large banks and to the detriment of smaller exchanges that have the highest costs. It means traders must now execute a buy or sell order on any exchange or trading system which they feel gives the best deal for their clients, though the exact definition of this has been left deliberately imprecise. The trades, rather than being reported to a national exchange, can now simply be made public. That represents a substantial business opportunity, as well as

a potential cost saving, for the banks.

In effect, MiFID simply recognises the reality of financial markets the world over—that trading is increasingly moving away from the established exchanges. Chris Pickles, of BT Global Financial Services, estimates that between 30% and 50% of share trading in Europe is already “off-exchange”. As in America, new electronic exchanges have emerged in Europe such as Chi-X, which claim to offer investors cheaper and faster trading services than the established exchanges, and which hope to flourish under MiFID.

Much of this “off-exchange” trading, however, takes place within the big investment banks themselves and among their clients. Apart from having to pay few or no fees, a big advantage of trading in these “dark pools” is that pricing and volumes can be kept opaque. Last year, seven large investment banks in London got together to launch their own electronic exchange (called Project Turquoise) which under MiFID will trade in competition with established bourses like the London Stock Exchange (LSE) and Deutsche Börse.

Under MiFID, these off-exchange markets will in effect become more regulated, because they will have to disclose more pricing information. They will also be freer to tempt business away from the traditional exchanges. This should encourage the traditional marketplaces to lower fees and increase the speed of transactions to become more attractive, which could make for leaner markets and larger trading volumes. On the other hand, it could “balkanise” trading; one of the tests of the new law's effectiveness will be whether it adds to overall liquidity or channels it in so many directions that it evaporates.

The new rules will squeeze the traditional exchanges' fee income (almost half of the revenues of the big European exchanges come from trading commissions). They will also reduce the money that exchanges can make from gathering and selling data on trades to dealers and brokers. The LSE, for example, obtains almost a third of its revenue from “information services”, a chunk of which will be under threat. A group of investment banks, who themselves account for a big slice of share dealing, are planning their own effort to report trade data, known as Project Boat. Data providers like Reuters and Bloomberg already report prices from the new electronic platforms on their screens.

Two researchers, Jean-Pierre Casey and Karel Lannoo of the European Capital Markets Institute, have argued that although MiFID's burden falls heaviest at first on the banks who have had to spend fortunes upgrading their compliance and IT systems, in the long run it is the exchanges who may be most affected. Though the authors expect large exchanges to be the main source of liquidity for a good while, they reckon that “the traditional business model of established exchanges is going to be challenged as never before.”

Already, the national exchanges are taking steps to counter the threat of competition, partly because of MiFID. The LSE has joined forces with Borsa Italiana, and the exchanges of Paris, Amsterdam, Brussels and Lisbon have forged Euronext, acquired last year by the New York Stock Exchange. According to Niki Beattie of Merrill Lynch, even though the established exchanges in Europe are monopolies, at least some of the larger ones have historically been more willing than their American counterparts to invest in new technology and are probably better equipped to take on the new electronic exchanges.

In America, a similar proliferation of such upstarts since the late 1990s has actually helped the traditional exchanges. Liquidity became so dispersed that earlier this year, the Securities and Exchange Commission introduced a new set of rules, known as Reg NMS, which effectively favour the big exchanges over electronic-trading networks. The goal was to concentrate trading in just a few venues. MiFID goes in the opposite direction.

For all this, big banks are unenthusiastic. Their churlishness about MiFID is not only because of the costs, but also because of the transparency it entails. The anonymity that came with dealing off-exchange meant that pricing became part of a bank's intellectual property. It was also easier to process large client orders out of the market spotlight. That is one reason why Europe's banks have successfully lobbied against MiFID being applied to the bond markets. They also argue, correctly, that too much regulation can stifle innovation. But having seen the mess banks made of structured finance, which was kept fiendishly opaque in the name of financial innovation, it is clear that even a little transparency can go a long way.

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Investment banking

Stir-fry finance

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A Chinese treat for Wall Street's whipping boy

IF ANYONE had suggested a year ago that one of America's top investment banks would soon be relying on a firm whose parent was founded by Deng Xiaoping to pull it back on track, they would have been laughed off the trading floor. But that is precisely where Bear Stearns finds itself. Beset by bad news since two of its hedge funds blew up in June, sparking the subprime-mortgage crisis, Bear came under pressure to find a partner with deep pockets. Its response, unveiled on October 22nd, is a strategic alliance with China's largest listed brokerage firm, Citic Securities. Born of necessity, the deal nevertheless is shrewd for both sides.

To those who had expected Bear to seek a large capital infusion, it is something of an anticlimax. But the bank insists it needs no such help. It has nearly $20 billion of cash. And as its key domestic fixed-income business shrinks, so does its balance sheet, and the amount of capital needed to support it.

Moreover, the alliance is a big move for Bear, given how jealously it guards its independence. The two firms will invest $1 billion in each other, with the option to raise their stakes to 9.9%. The centrepiece will be a pan-Asian joint venture, based in Hong Kong, into which Bear's Asian staff of 500 will be folded.

Each partner gets something they didn't have. Asia is a weak spot for Bear, which lacks the geographical reach of rivals—only a quarter of its revenue comes from outside America, compared with half of Goldman Sachs's. Citic brings enviable corporate connections in China, where it is the second-largest equity underwriter so far this year. Citic's links to a big lender, Citic Bank, also raise the possibility of a new source of back-up funding for Bear as well as access to the biggest reservoir of capital in the world. For its part, Bear brings expertise and international distribution, especially in debt products and derivatives, where Chinese banks are struggling to catch up.

If the deal produces frustration, it will be in China itself. The wording is woolly on the booming mainland market—which is excluded from the Hong Kong-based venture—with a loose agreement to develop products “to meet [its] evolving needs”. If past joint ventures are a guide, Citic will want to keep the juiciest transactions for itself.

But China offers such potential—with as many as 50m individual investors and a market capitalisation touching $3.7 trillion—that receiving only a small fraction of the deal flow might suffice for Bear. And Citic is likely to seek Bear's help in serving the growing number of Chinese companies looking to raise debt and equity in the West. It may also need Bear to channel Chinese private and government capital into American investments, which means every international firm wanting cash will have reason to call Bear. This may turn out to be the best profit opportunity of all, reckons Dick Bove of Punk Ziegel, a boutique investment bank.

To be sure, there are plenty of potential spanners in the works. Chinese firms are highly skilled at outmanoeuvring foreign partners. Indeed, that may already have happened in this case: Citic Bank's recent denial of interest in Bear, though technically true, pushed down the American bank's already depressed shares, making the terms of the deal more attractive for its sister company. Bear, on the other hand, has chosen an expensive time to buy into Citic (see chart).

Politics is unlikely to get in the way. Though some in America will feel queasy about a totalitarian state buying indirectly into Wall Street, Citic can portray itself as a partner rather than as a predator. The venture's internal politics may prove trickier. Bear's culture is quirky and close-knit. And Citic's interests may

not coincide with those of other large Bear shareholders, such as Joe Lewis, a Bahamas-based billionaire who bought a 7% stake in September (in a transaction rumoured to have been the result of an unintended unwinding of a massive derivatives trade).

Nevertheless, the deal looks reasonable for both sides. Citic is buying into Bear at a nice price, assuming that all of its skeletons are out of the closet. Bear could gain access to some wonderful opportunities. Even if its mainland ambitions are thwarted, its stake in Citic, a leading firm in a rampant market, could prove lucrative.

The reciprocal investment may even become a template for others seeking a way into the Middle Kingdom. After all, other banks' efforts to break into China via one-way investments have been largely frustrated. Morgan Stanley has little say in the running of its joint venture. Citigroup's investment in Guangdong Development Bank has been dubbed “Citi's Baghdad”—a cruel jibe, but the road is believed to have been bumpy. Even Goldman Sachs appears to have management problems with its China venture. Bear's approach might just show, paradoxically, that the best way into China is to be bought, not to buy.

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Buttonwood

Heart of darkness

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The peril for markets when computers miscalculate

WHEN markets wobbled in August, almost all the media attention was focused on the credit crunch and the links to American mortgage loans. But at exactly the same time, another crisis was occurring at the core of the stockmarket.

This crisis stemmed from the obscure world of quantitative, or quant-based, finance, which uses computer models to find attractive stocks and to identify overpriced shares. Suddenly, in August, the models went wrong.

The incident revealed a problem at the heart of the financial system. In effect, the quant groups were acting as marketmakers, trading so often (some are aiming for transaction times in terms of milliseconds) that they set prices for everyone else. But unlike traditional marketmakers, quant funds are not obliged to make markets come rain or shine. And unlike marketmakers, they use a lot of leverage. This means that instead of providing liquidity in a crisis, the quants added to instability. There is a lesson there.

In a way, the crisis stemmed from the quants' success. Many firms, such as the American hedge fund Renaissance Technologies, had done fantastically well and had been able to charge hefty fees. But if one firm can hire top mathematicians and use the latest technology, so can others. An arms race developed, with some trading faster and faster—even siting their computers closer to the exchanges in order to cut the time it took orders to travel down the wires.

And as the computers sifted through the data, some strategies became overcrowded. A paper* by Amir Khandani and Andrew Lo of the Massachusetts Institute of Technology back-tested a proxy for a typical strategy, involving buying the previous day's losing stocks and selling the winners. Such a strategy would have delivered a daily return of 1.38% before (substantial) costs in 1995 but the return fell steadily to 0.15% a day last year.

In the face of declining returns, the authors reckon, the natural response of managers would have been to increase leverage. But that, of course, increased their vulnerability when things went wrong.

Both the MIT academics and a paper by Cliff Asness of AQR Capital Management, a leading quant group, agree that August's problems probably began when a diversified, or multi-strategy, hedge fund experienced losses in the credit markets. The fund sought to reduce its exposures but its credit positions were impossible to sell. So it cut its quant positions instead, since that merely involved selling highly liquid stocks.

However, that selling pressure caused other quant funds to lose money as their favoured stocks fell in price. Those that were leveraged were naturally forced to reduce their positions as well. These waves of selling played havoc with the models. Quant investors thought they were aware of the risks of their strategy and had built diversified portfolios to avoid it. But the parts of the portfolio that were previously uncorrelated suddenly fell in tandem.

In theory, quant funds could have been bold and borrowed more; after all, the stocks they thought were cheap had become even cheaper. The traders who took on the positions of Long-Term Capital Management (LTCM), after the hedge fund failed in 1998, ended up making money. But the example of LTCM, which went bust before it could be proved right, argued in favour of a more cautious approach. “We could have rolled the dice but that would have risked the business,” said one quant-fund manager. “I don't know of anyone that did so.”

Avoiding that trap simply led quant investors into another. On August 10th, the stocks that quants had favoured suddenly rebounded. Those who had cut their positions most could not benefit from the rally. That category clearly included Goldman Sachs's Global Alpha hedge fund, which lost a remarkable 23% on

the month.

If it were just a few hedge funds, backed by rich people, losing money, it might not matter. But the funds had become too important: rather than adding stability, as marketmakers are supposed to do, they added volatility.

Quants will adjust their models and clients will become more discerning; AQR's Mr Asness says his firm will look harder for “unique” factors, that is, not used by other fund managers. But regulators should also reflect that markets are less stable than they assumed. The presence of leveraged traders such as quants at their heart means conditions can now turn, at the flick of a switch, from stability to panic.

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*“What Happened to the Quants in August 2007”, http://ssrn.com/abstract=1015987.

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Brazilian markets

The view from cloud nine

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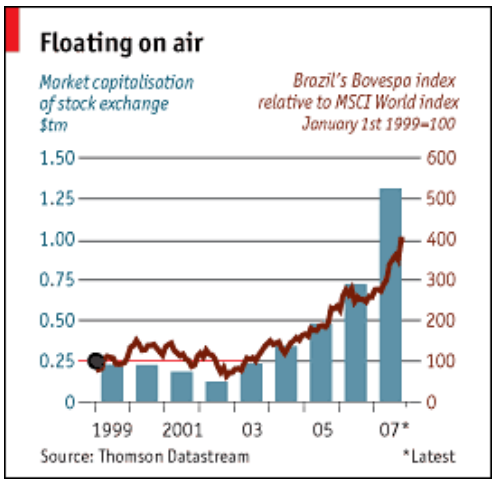
Why Brazil looks in better shape than many other emerging markets

Get article background



RIGHT now it is hard to walk around swanky parts of São Paulo without running into someone who has an uncle, a cousin or a brother involved in a company float. As many as 27 firms made their debut on the São Paulo exchange, known as Bovespa, in the first half of the year, surpassing the total number of floats in the whole of 2006. And they keep coming.

IPO-fever is such that shares in the exchange itself were due to start trading on October 26th, as *The Economist* went to press. It should be a coming-of-age party for a market that has broadened, deepened and bounded ahead recently (see chart).

This is quite a turnaround. Five years ago interest rates were so high that investing in equities was an esoteric pastime. Trading volumes were languishing and companies were rushing to delist.

Since then, three things have happened. First, interest rates have come down. Second, steps have been taken to improve corporate governance. And third, Brazil's public finances have been tidied up by a combination of good housekeeping and the commodities boom. Even Warren Buffett, a shrewd American investor, has been buying the Brazilian currency.

The flirtation with equities is still in its infancy. Years of high interest rates have given Brazil a fixed-income culture, says Eduardo Mufarej of Tarpon Investment Group. Only a tiny proportion of Brazilians own shares. As interest rates continue to head down, Brazilian pension funds should increase their exposure to equities, which now lies at just 16%, excluding those of state-owned Banco de Brasil. Itaú, a Brazilian bank, reckons this will add up to an annual flow to the Bovespa worth between 18.5 and 24.5 billion reais ($10.2 billion and $13.6 billion) until 2010, which is more than foreign investors have put into the market during the past decade.

The same forces that have benefited equities have brought all sorts of snazzy new debt products to Brazil in the past couple of years. Mortgage and credit-card debts, which did not exist when interest rates hovered somewhere above the Corcovado mountain, are now being bundled together into securities and sold. The adventurous are even getting excited about more exotic products, such as *precatórios*, which bundle local-government debts.

How sustainable is all this? On the one hand, the IPO activity has been good for corporate governance. In order to attract interest, the recent IPOs have had to sign up to so-called *novo mercado* guidelines, which do away with the dual share classes, over-friendly board members and non-existent protection for minority shareholders that made life hazardous for outside investors. A further boost to confidence should come when Brazil's sovereign debt is upgraded to investment grade, which most people expect will happen within the next 18 months.

Familiar dangers lurk, though. Lots of good companies have taken advantage of favourable conditions to come to the market, but some pretty dreadful ones have too, according to Paulo Bilyk of Rio Bravo Investments. Brazil is more open than many other emerging markets and so more vulnerable to hot money. Some 70% of the money for the IPOs has come from foreign investors. That money would probably be the first to head for the exits in any wobble. And some of the new stocks are illiquid. Still, for the moment things are looking good. If you don't believe us, say São Paulo's financiers, ask Mr Buffett.

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Peer-to-peer lending

Crunchless credit

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Social lenders seek to take advantage of bank turmoil

IF THE banks won't lend you money, might a stranger? Probably not, to judge by recent data from Prosper, an American peer-to-peer lending marketplace (a place where people can lend their own money to other people).

The website, which lets lenders bid against each other on the interest rates they are prepared to offer to specific borrowers, has seen an increase in demand from subprime borrowers as access to credit has tightened. But lenders have responded in turn. Chris Larsen, Prosper's boss, reports a sharp drop in the number of subprime borrowers who are getting funded, from just under a quarter of borrowers in September 2006 to a mere 8% last month. Homeownership, which used to weigh positively on a borrower's creditworthiness, no longer casts such a magic spell.

So far, so like the outside world. But the credit crunch is also reinforcing areas of difference between social-lending firms and the mainstream market. Without the costly paraphernalia of a normal bank (branches, staff and regulatory costs), social-lending marketplaces have always claimed to offer borrowers cheaper credit than they could get elsewhere. That price gap has widened recently as mainstream lenders have hiked their rates and social lenders have largely failed to follow suit. Asheesh Advani, founder of a social-lending business that relaunched under the Virgin Money brand this month, says that its loan volumes have grown rapidly over the past year largely because they are seen as more affordable as credit terms elsewhere have become tougher.

Why aren't social lenders raising their rates? One reason is that, unlike banks, they are not facing higher funding costs caused by the seizure in money markets. Another clue lies in that word “social”. Mr Advani, whose business is designed to facilitate loans by family and friends, points out that parents tend not to foreclose on mortgages but to restructure them. Even when strangers are involved, lenders are usually not seeking solely to maximise returns. Let's not get too misty-eyed, though. The relative immaturity of the market may also play its part, says Giles Andrews of Zopa, a British peer-to-peer lending site.

Most intriguing of all is the possibility that social-lending sites do a better job than their mainstream counterparts of assessing risk. Zopa, which takes a stringent approach to credit assessment and will let only prime borrowers onto the site, boasts a default rate of just 0.1%. Prosper, which is more *laissez-faire* and has a default rate of 3%, provides measures of “social capital”, such as endorsements by friends, that help lenders to judge the risk of a specific borrower.

That sounds promising. The volumes of loans being processed by peer-to-peer marketplaces remain tiny, however. And default rates will rise as portfolios age. But at least the credit crisis has given social lending a friendly pat on the back.

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Economics focus

The case for death duties

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How to improve an unpopular tax

Jac

TAXES on estates when their owners die arouse passions that politicians ignore at their peril. In America there has been a long-standing campaign to get rid of the federal “death tax”. Thanks to George Bush's tax cuts, it is supposed to be repealed in 2010, though only for one year. In Britain a recent proposal by the opposition Conservatives to slash the burden of inheritance tax swung the polls their way to such an extent that Gordon Brown, the Labour prime minister, cancelled an election he had planned this autumn.

The current unpopularity of death duties is perplexing considering how long they have been around. America introduced its federal estate tax in 1916. Britain's death duty goes back further. Taking modern shape in 1894, it can be traced back to 1694 when probate duty was introduced. Since 1986 it has confusingly been called inheritance tax although it is nothing of the sort. Like America's estate duty it remains a levy on the amount left by the deceased and does not tax what individual beneficiaries receive.

The hue and cry about death duties is all the more puzzling since they affect few people. In Britain, 6% of estates pay the levy, which raised less than 1% of total revenues in the last fiscal year. In America, between 1% and 2% of estates have typically been subject to the tax over the past two decades and it has contributed only about 1% of federal revenues.

The gut dislike of death duties seems to arise because the tax clashes with heartfelt dynastic instincts. Until recently this was a worry only for the super-rich, but now many ordinary people fear that, thanks to rising house prices, they may be dragged into paying death duties. Given the low take from the tax, it is easy to see why politicians on either side of the Atlantic have been so receptive to public worries. Cutting estate or inheritance tax seems to offer a big electoral hit at small fiscal cost.

But good politics does not mean good economics. Taxes should be assessed on three grounds: how they affect incentives, how fair they are and how simple. Estate taxes score well on the first two, less satisfactorily on the third. Whatever their merits, however, a tax that targets beneficiaries, rather than the estate of the donor, would be more effective.

Any tax on capital will tend to dissuade people from accumulating the wealth in the first place, but a death duty is arguably one of the better options. As Alan Auerbach, an economist at the University of California, Berkeley, pointed out in a lecture given in London a year ago, it falls on unintended legacies—money put

aside to pay for old age, for example—as well as intentional bequests. Since unintended bequests are, by definition, not planned they should be unaffected by the prospect of the tax.

Another argument for death duties is that big bequests make people less likely to work and to be enterprising. Winston Churchill put the argument succinctly in 1924 when he argued that the tax was “a certain corrective against the development of a race of idle rich”. Economic research published at Syracuse University in America suggests that the more wealth that older people inherit, the more likely they are to quit the labour market.

The fiscal cost of abolishing death duties may seem trifling, but it still means that for a given level of public spending other taxes must rise, which may harm incentives more. This was a point readily appreciated by both Churchill in his 1925 budget and William Harcourt, who introduced estate duty in 1894. Both chancellors of the exchequer used extra revenues from death duties to lower the income tax.

Death duties can also be justified in terms of fairness. A thriving economy will generate great fortunes, but there is good reason to check these becoming entrenched through inheritance. The estate tax offers a modest counterweight against the development of a new plutocracy to rival the industrial barons of America's Gilded Age. Furthermore it also taxes wealth built up through windfalls rather than thrift and effort. For example, recent gains in the housing market have accrued mainly to people who happen to belong to the right generation and who own property in the right places.

Death by a thousand cuts

The case for retaining estate taxes in Britain and America is weaker on grounds of simplicity. In principle, the tax is quite straightforward; in practice it is anything but. It may not raise much revenue but it has been a goldmine for the tax-advice industry. In Britain the tax has generally fallen on the not-so-wealthy and the ill-advised.

The complexity of death duties is not a reason to do away with them but rather to reform them. By sticking with a tax on donors' estates, Britain and America have become the exception. Other developed countries now tax wealth received by beneficiaries. One advantage of this approach is that it does more to tackle wealth inequality, which arises from large inheritances rather than big estates. It creates an incentive for wealth to be spread among several beneficiaries, whereas the estate duty simply reduces the wealth that it taxes in a direct transfer to the state.

Another advantage of a genuine inheritance tax (not a false friend like Britain's) is that the tax authorities can set different rates according to how close heirs are to the donor. In France, for example, distant relatives are taxed more than children. Because this seems fairer for families, taxes on beneficiaries may have more political staying-power than old-style death duties.

Days after Mr Brown's embarrassing retreat from an election, his chancellor announced measures that will enable more married couples and civil partners to pay lower death duties. As so often, however, hasty decisions are not the best ones. The right way to take the sting out of the “death tax” is not to tinker with it through piecemeal cuts. Rather, the solution is to turn it into a levy on inheritance.

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Biology

All systems go

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A powerful way of studying biology looks set for take-off

Illustration by Stephen Jeffrey

SEVEN years ago, one of the attractions at the now-defunct Millennium Dome in London was what looked like a remarkably detailed video of a beating human heart. People could admire the heart's delicate tracery of blood vessels with the muscle stripped away and hear a display of its electrical activity that would not have disgraced a disco. The voiceover described it as “one of the most powerful tools we have in the fight against disease”, but few of the visitors understood why.

Actually, the beating heart was no simple video. It was, instead, the output of a stupendously complex computer model of a heart, developed over more than 40 years. This model is an example of “systems biology”, an approach that represents a significant shift both in the way biologists think about their field and in how they go about investigating it.

A central tenet of most scientific endeavour is the notion of reductionism—the idea that things can best be understood by reducing them to their smallest components. This turns out to be immensely useful in physics and chemistry, because the smallest components coming from a particle accelerator or a test tube behave individually in predictable ways.

In biology, though, the idea has its limits. The Human Genome Project, for example, was a triumph of reductionism. But merely listing genes does not explain how they collaborate to build and run an organism. Nor do isolated cells or biological molecules give full insight into the causes and development of diseases that ravage whole organs or organisms. A complete understanding of biological processes means putting the bits back together again—and that is what systems biologists are trying to do, by using the results of a zillion analytical experiments to build software models that behave like parts of living organisms.

You can't beat the system

The pharmaceutical industry stands to gain much from this approach. Around 40% of the compounds that drug companies test cause arrhythmia, a disturbance to the normal heart rate. Drugs such as the anti-inflammatory medicine Vioxx and the diabetes treatment Avandia have been linked with an increased risk of heart disease. The result is that billions have been wiped off their makers' share prices.

Not surprisingly, the pharmaceutical industry has sought out Denis Noble of Oxford University, the creator of the beating-heart model, to help. Dr Noble is now part of a consortium involving four drug firms—Roche, Novartis, GlaxoSmithKline and AstraZeneca—that is trying to unravel how new drugs may affect the heart. Virtual drugs are introduced into the model and researchers monitor the changes they cause just as if the medicines were being applied to a real heart. The production of some proteins increases while others are throttled back; these changes affect the flow of blood and electrical activity. The drugs can then be tweaked in order to boost the beneficial effects and reduce the harmful ones.

Systems biology thus speeds up the drug-testing process. Malcolm Young is the head of a firm called e-Therapeutics, which is based in Newcastle upon Tyne. Using databases of tens of thousands of interactions between the components of a cell, his company claims to have developed the world's fastest drug-profiling system. In contrast to the two years it takes to assess the effects of a new compound using conventional research methods, Dr Young's approach takes an average of just two weeks. Moreover, the company has been looking at drugs known to have damaging side effects and has found that its method would have predicted them.

Testing for reactions in this way could also offer a more rigorous route to assessing alternative therapies, such as herbs and clinical nutrition (which seeks to control disease through the use of particular foodstuffs). These remedies are often dismissed as unscientific because they have a multitude of effects on the body that are hard to quantify. Studying multiple effects, however, is precisely what models like the virtual heart are able to do.

Nor need such models be confined to people. In biological terms, mice are better understood than men, and a team in the Netherlands is using a computer model of mouse physiology to investigate the effects of a high-fat diet, by monitoring the concentration of various components of the blood. The team, from a firm called SU BioMedicine, which is based in Zeist, found that the active ingredients of a particular concoction of Chinese herbal medicines have the same effect on blood composition as the anti-obesity drug Rimonabant. The hope is that systems-biology studies like these will eventually trace out the pathways the herbs are affecting.

Such models may also help to pin down the causes of diseases that arise from the interplay of genetic and environmental factors. Andrew Ahn of Harvard Medical School cites the example of diabetes, for which the standard clinical test is a measure of the level of glucose in the blood. But that is a single snapshot in time. Dr Ahn suggests that the way toward a fuller understanding of diabetes is to track glucose levels against other factors such as diet, sleeping habits and psychological health. He proposes to employ a systems-biology model to do so.

Ultimately, the aim is to build an entire virtual human for researchers to play with. But reductionism is still needed to get there. Human bodies are made of cells, and the best way to build a model body might be to construct a general-purpose virtual cell that can be reprogrammed into being any one of the 220 or so specialised sorts of cell of which the human body is composed. That, after all, is how real bodies develop. And a collaboration organised by the European Science Foundation is hoping to do just this, through what it calls the Blue Cell project.

Keeping track of the data needed to carry out systems biology on this scale will be a Herculean task, and may turn out to be the driver of future developments at the heavy-number-crunching end of the computer industry. Dr Noble is in negotiations with Fujitsu, a Japanese computer firm that is developing a machine capable of performing some ten thousand trillion calculations a second. That would make it the world's fastest computer, but it comes with a price tag to match—about a billion dollars. This is a little more than the $6m paid for that fictional bionic man, Steve Austin, even allowing for inflation. But it is only about a quarter of what the Human Genome Project cost. And this time, it might produce some answers that prove immediately useful.

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Cosmology

The lesser spotted universe

Oct 25th 2007
From The Economist print edition

A cosmic defect that appeared at the beginning of time has come to light

GOD does not play dice, or so said Einstein. But might he knit? If so, physicists seeking to explain the fundamental nature of the universe think they may have spotted a point at which a stitch became tangled, creating a flaw in the fabric of reality.

The universe was born in the Big Bang some 14 billion years ago. The first snapshots of the infant universe, showing it aged a mere 300,000 years, before the first stars coalesced, are taken in the light (or, rather, the microwaves) from that explosion. The cosmic microwave background, as it is known, reveals the early universe to have been a remarkably uniform fireball. Today's universe looks very different. It is lumpy, with clusters of galaxies scattered through it. Physicists have therefore spent years examining the baby pictures in the hope of discerning telltales of how the change happened.

What they have found are subtle variations in the cosmic microwave background, including a large spot that is distinctly colder than the rest. Over the past year, several ideas as to what caused this spot have been proposed and then quashed. The latest suggestion, made by Neil Turok of the University of Cambridge, in England, and his colleagues, and published this week in *Science*, is that the spot is a blemish which formed as reality crystallised, rather as ice cubes contain irregularities and air bubbles.

At the precise moment the universe began, its constituents—which today appear as fundamental forces such as gravity and electromagnetism, and subatomic particles such as electrons and quarks—were unified into a single substance in the extreme heat of the explosion. As the universe expanded, though, it cooled. And as it did so, it went through phase changes, just as steam condenses to liquid water that then forms ice as the temperature falls. At each point at which the phase of the universe changed, one of the forces of nature became distinct, or a type of matter emerged as being different from the others. Only when this process was complete did the familiar pattern that makes up the laws of physics properly emerge.

One theory, devised several years ago, has it that each of these phase transitions is marked by the formation of defects. Such imperfections are analogous to the misalignments between ice crystals that often form when water freezes. These can be seen both in ice cubes and on frost-covered windowpanes in the places where growing crystals have met. Cosmic-defect theory, as it is known, holds that a similar process would have happened as the newborn universe cooled.

One type of defect proposed by Dr Turok is called a “texture”—a knot of energy that could be anything between a few millimetres and many light years across. Like other cosmic defects, once formed, textures would unravel at the speed of light. They would, however, leave behind a trace of their existence. That is because the process of unwinding concentrates mass into a rapidly shrinking region, creating a gravitational field that attracts nearby matter. This, in turn, would lower the frequency of microwaves (or any other form of electromagnetic radiation) in the region by a process called gravitational red-shifting. A lower frequency corresponds to a lower temperature, so these spots would appear cold.

Of course, the explanation for the cold spot could be something else entirely. The team are being careful not to claim they are certain they have seen a cosmic defect. Indeed, they propose further tests that might show them to be wrong. If the cold spot is merely a random fluctuation in the cosmic microwave background, for example, that could be revealed by examining the polarisation of the microwaves coming from it. But, having conducted a statistical analysis of the microwave background, the team reckon that it is most likely that the cold spot is, indeed, caused by a defect.

If they are correct, it would be a boon not only for cosmologists but also for particle physicists. Spots such as this (if more can be found) would give them a way to study how fundamental forces and particles formed that is far beyond the capabilities of the puny (but very expensive) machines they use on Earth. And, based on Dr Turok's results, the pattern they eventually discover might look surprisingly like “knit

one, purl one”.

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Cancer and allergies

Win some, lose some

Oct 25th 2007
From The Economist print edition

Hyperactive immune systems may protect against cancer. Or vice versa

ALLERGIES cause heaps of trouble. Some people suffer the nuisance of seasonal hay fever, snuffling and sneezing as pollen flows through the air. Others react to materials such as metals, developing unpleasant rashes at their very touch. And some sorry souls go into shock at the mere presence of certain foods, particularly peanuts and shellfish.

The cause in each case is an oversensitive immune system that is reacting to harmless materials as well as to the pathogens it is supposed to be fighting. This creates annoying and sometimes life-threatening symptoms. Chronically over-reactive immune systems may not, though, be an entirely bad thing. Another role played by the immune system is to destroy malignant tumours before they take hold—and work carried out recently by Annette Wigertz of the Karolinska Institute, in Stockholm, and her colleagues suggests that the immune systems of those with allergies may be particularly good at this. However, in a nice example of the way that one set of data is sometimes capable of divergent—indeed, opposite—interpretations, she may instead have discovered a clue about how cancers shut down immune systems in order that they themselves may prosper.

This Manichean finding came after Dr Wigertz and her team interviewed 1,527 people with gliomas (a type of brain tumour) in Denmark, Finland, Norway, Sweden and the south-east of England. The researchers asked the patients in question whether they had a history of allergies, and then compared the results with those for 3,309 otherwise similar individuals who did not have brain tumours. As Dr Wigertz reports in the *American Journal of Epidemiology*, the tumour-free were, indeed, more likely to suffer from allergies. The presence of an allergy was associated with a 30% reduction in the likelihood of having a glioma.

This was not all that surprising. Previous research had detected similar inverse correlations between allergies and brain tumours, suggesting that a welcome side effect of allergy was resistance to cancer. But this new study went further. It looked carefully at the time in the patients' lives when their allergies were active, and it found that this timing was crucial. Dr Wigertz noted that the absence of allergy was correlated with the time when a glioma first formed. That was true even in people who had previously had allergies which had then cleared up.

Awkwardly, this result is open to two rather different interpretations. The optimistic explanation is that the hyperactive immune system associated with allergy does, indeed, protect against tumours. In that case, the coincidence was caused by tumours taking advantage, as it were, of the reduced immune surveillance that accompanied the disappearance of the allergy. The sinister interpretation is that tumours are doing something as they grow that suppresses the immune system and thus allergic reactions. Either way, tumour and lack of allergy coincide. And either way, something interesting is going on. But Dr Wigertz's result illustrates the perils of leaping to conclusions on the basis of incomplete data.

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An auction of meteorites

Nature imitating art

Oct 25th 2007
From The Economist print edition

Tired of boring Picassos, Rothkos and Hirsts? How about a stone from space?

PEOPLE who think that the explanation for the origin of species is the designing hand of an intelligent creator might pause to consider this. The most beautiful objects designed by the hands of that undoubtedly intelligent creator, man, are those usually designated as art. Yet a series of works of art up for auction on October 28th owe nothing to the hand of man and plenty to chance. They are the products of geological events 4.5 billion years ago, combined with the accident of having collided with the Earth at several thousand kilometres an hour. They are, in other words, meteorites. And they are on sale at Bonham's New York gallery.

You look like a million dollars

The stones in question come from what is known as the Macovich collection. This is owned by a small group of enthusiasts, one of whom, Darryl Pitt, acts as its curator. Mr Pitt, whose day job is managing the careers of musicians, built up the collection (which now includes stones from more than 500 falls) by buying specimens, and also by swapping them with museums. Since his interest lies as much in the aesthetics of the objects as in their scientific value, museums are often willing to trade beauty for science, to the advantage of both sides.

The beauty itself is sometimes the result of the way a specimen melted when it sped through the atmosphere and sometimes the consequence of its origin. Many meteorites are pieces of rock that formed inside small planets which were shattered by subsequent collisions. They therefore contain large, exotic crystals that can grow only at depth.

Specimens going under the hammer include several pieces of the object that formed Meteor Crater in Arizona; a bit of the Ensisheim meteorite, which landed in Alsace in 1492 and was pronounced an omen from God by Maximilian Habsburg (who later became Holy Roman Emperor); and a big chunk of the Willamette meteorite (see above), the largest known from North America, which is expected to fetch more than $1m.

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Twentieth-century music

Music, war and politics intertwined

Oct 25th 2007
From The Economist print edition

The turbulent years of the 20th century, as seen through its music

The Rest is Noise: Listening to the Twentieth Century
By Alex Ross

Farrar, Straus and Giroux; 623 pages; $30.

Buy it at
Amazon.com
Amazon.co.uk

RIA Novosti

WHEN Gershwin's “Rhapsody in Blue” had its première in 1924, at a concert in New York that was billed as “An Experiment in Modern Music”, the audience included Rachmaninov and other big names from the classical world. By all accounts, the experiment was a success. It established that jazz could be worthy of the concert hall. Four years later in Europe, Gershwin met more of his new admirers, including Stravinsky, Ravel, Prokofiev and two composers of the revolutionary Second Viennese School, Schoenberg and Berg. Awed by Berg, Gershwin hesitated at the piano one night, nervous about playing his catchy songs before one of the deconstructors of conventional harmony. Berg sternly encouraged him: “Mr Gershwin, music is music.”

If only it were that simple, writes Alex Ross, the *New Yorker*'s music critic, in his history of music in the 20th century. He notes that musical life in the past 100 years has “disintegrated into a teeming mass of cultures and subcultures, each with its own canon and jargon.” The cultures may sometimes meet on affable terms, but the results can be comic in their incongruity. In the 1930s, when much of the

European artistic elite was holed up in Hollywood, Fanny Brice, a comedienne, strolled over to Schoenberg at a dinner given by Harpo Marx: “C'mon, professor, play us a tune.”

It would be hard to imagine a better guide to the maelstrom of recent music than Mr Ross, who worked on this book for a decade. He has an almost uncanny gift for putting music into words. No other critic writing in English can so effectively explain why you like a piece, or beguile you to reconsider it, or prompt you to hurry online and buy a recording. And his reporter's nose and exhaustive research result in more telling vignettes and notable anecdotes per chapter than any reader has a right to expect.

Mr Ross notices that Gustav Mahler, who came from a Jewish background, was at the podium when Adolf Hitler saw Wagner's “Tristan and Isolde” in Vienna on May 8th 1906, an experience that prompted Hitler to decide to study opera direction and painting in Vienna. (Unfortunately, that career-plan did not work out.) He notices that some photographs of Hitler's oratorical poses show a suggestive resemblance to Mahler's conducting style. And he notices that a prisoners' orchestra that played for SS officers in Auschwitz in 1942, and captivated Josef Mengele, was led by Mahler's niece, Alma Rosé, who died in the concentration camp.

War and politics visibly intertwined with music in the 20th century, under totalitarianism and after it. As Mr Ross documents, classical music blared constantly in the choreographed background to Nazi life. For a time, the classical repertoire was deemed to have lost its moral stature because of the Nazis' embrace. This was one reason why some composers tried to scrap classical forms and explore the alternatives, leading to the dissonant pandemonium of experimental music in the 1950s. Theodor Adorno, a left-wing sociologist and musician, wrote in 1949 that preserving tonality betrayed a fascist mentality.

Under Stalin, Soviet art was rigorously policed to ensure that it reflected Soviet ideology. Shostakovich was accused of “formalism”: Soviet-speak for any style that seemed too close to Western modernism. He was one of the few censured Soviet artists to survive the purges.

Post-war democracy had its (less pernicious) musical agenda, too. The psychological-warfare unit of America's occupation government in Germany and Austria worked to minimise the influence of tainted composers, such as Richard Strauss, who had unwisely thanked God when Hitler came to power: “Finally, a *Reich* chancellor who is interested in art!”

Sibelius's “Finlandia” was banned, in case it rekindled feelings of Nordic supremacy. American music, such as the work of Aaron Copland and Virgil Thomson, was encouraged. In the early 1960s, when America wanted to show that capitalism and high culture were compatible, music became a weapon in the cold war. As Mr Ross puts it, the arms race expanded into a science race and then a culture race. Much of the impetus for the millions of dollars spent on cultural infrastructure came from the Kennedy administration—although Jacqueline Kennedy once quipped that the only music that the president really liked was “Hail to the Chief”.

Mr Ross says that his aim is to provide a history of the 20th century through its music, not just a history of the music itself. In this he succeeds magnificently, at least for classical music and its closest cousins. Yet, as he knows, a large part of the story of the past century belongs to pop and rock, which get only walk-on parts here, albeit excellently drawn ones. He is especially adept at describing the cross-fertilisation of genres—how classical minimalism affected popular music through such intermediaries as Lou Reed and Brian Eno, for example.

There are tantalising hints that he has much to say about the classical-popular divide. Classical composers, he writes, are now looking for the place between the life of the mind and the noise of the street. They may never match the instant impact of pop, but “in the freedom of their solitude, they can communicate experiences of singular intensity.” If only he would tell us more. This is not a complaint, but a request for an encore.

The Rest is Noise: Listening to the Twentieth Century.
By Alex Ross.
Farrar, Straus and Giroux; 623 pages; $30.
To be published in Britain by Fourth Estate in March 2008

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Libraries

Nasty, dangerous things

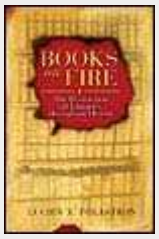
Oct 25th 2007
From The Economist print edition

THE Talmud and the Koran allege that a library existed before the creation of the world. The Vedas take this singular idea one audacious step further: a library existed before the creator himself. Such is the fabulous potency of the idea of the book. But books are considered as much of a menace as they are a blessing. “Books on Fire”, written by a French historian who specialises in Chinese and Arab studies, is about those who regarded books as a threat—and consequently burnt them.

Books educate people and educated people ask awkward questions of those who govern them. The educated, in short, are considered ungovernable. Better to keep people ignorant of the past and to concentrate their minds upon the fanciful utopia that lies ahead. Thus thought Chairman Mao, and many dictators who came before him.

The millennia-long story of the wilful or careless destruction of books—this account takes in both possibilities—begins centuries before the birth of Christ. Persian invaders destroyed the book collections of ancient Egypt. The great Alexandrian library created by the Ptolemies was destroyed by Augustus Caesar in 48BC. One of the principal reasons for much of this destruction was simple: the books of my enemy are my enemy.

Books on Fire: The Destruction of Libraries throughout History
By Lucien X. Polastron



Inner Traditions; 384 pages; $24.95. Thames & Hudson; £18.95

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Lucien Polastron's book, which proceeds chronologically and charts one fearsome conflagration after another until it reaches present-day Baghdad, teems with narrative detail. It records the precious and inestimable things that have been lost for ever: all the poetry of Cicero, for example. How many books did Savonarola cause to be destroyed in Florence? What was the count for which Henry VIII of England could be held responsible? Read within.

Then, having driven us pell-mell through almost three millennia of book destruction, the author addresses, almost by way of a coda, a development that threatens books today, very much alive in our major libraries. This is the replacement of real books by sometimes unreadable copies on microfiche.

In a way, “Books on Fire” is an enthralling and terrifying read. Yet it is also something of a disappointment. The translation from French is often gauche and inelegant, even inept at times, with too much accidental bathos.

But the original must bear some measure of blame. The ever onward-rushing narrative proceeds with hectic jerkiness. Information sprays forth in random and over-excitable gushes. The book lacks consistency of tone: sometimes it reads gravely, at others it indulges in a kind of facetious and slapdash humour. And yet, for all its shortcomings, the story it tells—of the continuing reign of folly, ineptitude and unreason—is a troubling and profoundly important one.

Books on Fire: The Destruction of Libraries throughout History.
By Lucien X. Polastron.
Inner Traditions; 384 pages; $24.95. Thames & Hudson; £18.95

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George Bush's presidency

A sceptic tackles a true believer

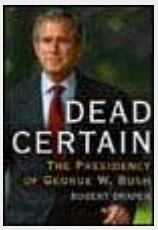
Oct 25th 2007
From The Economist print edition

Get article background

HOW does George Bush eat a hot dog? Rapidly, with a voracious lack of interest, observes Robert Draper. “He was a man who required comfort and routine. Food, for him, was fuel and familiarity. It was not a thing to reflect on.”

It is tough to write a truly fresh biography of a sitting American president. His secret papers are still secret. He is too busy to grant you much face time. And your readers think they already know him. Bearing all this in mind, Mr Draper has done a fine job. His publicist boasts of his “unprecedented access” to George Bush: six one-on-one interviews. But this is not what makes the book worth reading.

Dead Certain: The Presidency of George W. Bush
By Robert Draper



Free Press; 463 pages; $28. Simon & Schuster; £18.99

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Mr Draper, a former writer for *Texas Monthly*, has been watching Mr Bush for a long time. He first wrote a profile of him in 1998, when he was a relatively uncontroversial governor, and he has followed him closely ever since. Yet, unlike most Bush biographers, he maintains enough distance to write dispassionately. One has the feeling that he really “gets” Mr Bush. He understands, for example, the president's charisma: “unaffected, big-brotherly, oddly confidential as his keen blue eyes locked in on yours.” He scotches the notion that Mr Bush is stupid, but describes how he often lets his emotions carry him away.

“Dead Certain” is thorough without being pedantic, and adds colour to our understanding of the Bush presidency. Mr Draper captures the skill of Mr Bush's two presidential campaigns. In 2000 he beat an incumbent vice-president after eight years of peace and prosperity: the wry slogan among his inner circle was: “Things have never been better. Vote for change.” Four years later, with the economy stalled and Iraq in flames, he won again. This time, the backstage slogan was: “Things have never been worse. Stay the course.”

Mr Draper's account of how the response to Hurricane Katrina was bungled is comprehensible even to readers unfamiliar with America's federal system. Mr Bush wanted to assume command of the Louisiana national guard. Louisiana's governor, Kathleen Blanco, said no, partly because troops under federal command are barred from doing police work, and New Orleans was overrun with looters. While the president and the governor bickered, flood victims went hungry.

On Mr Bush's other, bigger foul-up, Mr Draper offers a flowing narrative and some new details. Mr Bush admits to him that, before invading Iraq, “we didn't spend a lot of time planning” how to cope with sectarian violence. Some of the administration's errors would be comical were they not so serious. Mr Bush's proconsul in Iraq, Paul Bremer, says Mr Draper, disbanded the Iraqi army without consulting his boss. “The policy was to keep the army intact,” says Mr Bush. “Didn't happen.”

In April 2006, with the war going badly and Mr Bush's abysmal polls making it hard for him to get anything done, he gathered ten close advisers and asked for suggestions. One suggested firing Donald Rumsfeld, the woeful defence secretary. Mr Bush asked for a show of hands. Seven wanted Mr Rumsfeld to go. Mr Bush kept him for another seven months—until after his party had lost the mid-term elections.

Mr Draper is slow to judge, which lends force to his conclusion. He argues that Mr Bush's virtues and vices are one and the same. His quickness can be seen as impatience, his plain speech as intellectual laziness, his boldness as recklessness and his strength of purpose as self-righteousness. Mr Bush understands that his legacy depends on salvaging something from the mess in Iraq, and is clearly deeply troubled by what has gone wrong there. But he tells Mr Draper that he tries not to wear his worries on

his sleeve.

Dead Certain: The Presidency of George W. Bush
By Robert Draper
Free Press; 463 pages; $28. Simon & Schuster; £18.99

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Britain between the wars

Two worlds

Oct 25th 2007
From The Economist print edition

THESE two books cover an identical period of British history, the years between the two world wars, yet one could be forgiven for thinking that they describe events on different planets. The book by Roy Hattersley, a veteran Labour politician, examines the political, social and economic crises of the period as well as exploring the cultural and technical achievements that illuminated two decades that were otherwise “grey as well as grim”.

By contrast, the book by D.J. Taylor, a novelist and critic, deals with the antics of a tiny clique of young, mostly high-born people whose appetite for ever more outlandish forms of entertainment brought them a notoriety that endures to this day. If the two books were a diptych, intended to record Britain during the inter-war period, Lord Hattersley's would be a painting by L.S. Lowry of the industrial north, of factory workers under a pall of smog; Mr Taylor's would be an exquisite portrait photograph by Cecil Beaton.

“Borrowed Time” is essentially a collection of essays infused with the author's worldliness and humour. It opens with the 1919 Versailles peace conference imposing a settlement that made war in 1939 so likely. Its core is the 1926 general strike and the appalling human consequences of industrial depression. It is here that Lord Hattersley is most at home; this is history with a pinkish tinge to its conscience.

He does, however, raise his eyes to all the other things going on. He discusses the literature, theatre and art of the period, and is as conversant with the nuances of T.S. Eliot's poetry as with the intricacies of high economic policy. Then there is the BBC, the foundation of which in 1922 was one of the most important developments in inter-war Britain. In 1918 there was no national broadcasting; by 1938 the BBC had 8m licence holders.

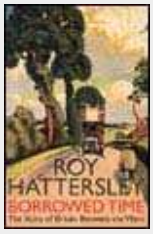
“Bright Young People” is the story of the group of leisured young men and women who have become as synonymous with the 1920s as jazz or cocktails. Their forte was enjoying themselves and, thanks to a blizzard of novels, memoirs and biographies, this happy knack has passed into legend. They gave parties of every description: the “Bath and Bottle Party”, the “Impersonation Party” and the “Hermaphrodite Party”, to name but three.

Mr Taylor's book trawls through this narrow, introspective world. It is amusing to read about the parties and the madcap stunts, to hear about the fancy dress, the “lesbians dressed as admirals”. After a while, however, the pleasure begins to pall: there is, after all, a limit to how much 80-year-old gossip one can endure.

Borrowed Time: The Story of Britain Between the Wars.
By Roy Hattersley.
Little, Brown; 454 pages; £20

Bright Young People: The Rise and Fall of a Generation, 1918-1940.
By D.J. Taylor
Chatto & Windus; 322 pages; £20

Borrowed Time: The Story of Britain Between the Wars
By Roy Hattersley



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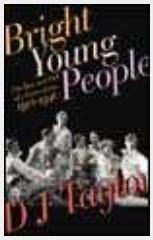

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Iran and America

Missed chance?

Oct 25th 2007
From The Economist print edition

A lost opportunity before Tehran's neocons took over

INSTEAD of slipping into war, could America and Iran negotiate a detente in the Middle East? In her clear and readable primer on Iran and its relations with America, Barbara Slavin, a writer for *USA Today* (and previously for *The Economist*) recounts how such a breakthrough may have been missed after the attacks of September 11th 2001.

United briefly by their dislike of the Taliban, Iran and America found common cause in Afghanistan. Their diplomats held more than a dozen quiet meetings in Geneva and Paris. In May 2003 the Iranians sent the Americans a blueprint for comprehensive negotiations, the aim of which would be to end the long mutual animosity. But, writes Ms Slavin, this offer never received any serious consideration by the Bush administration.

Whether this was the waste of a golden opportunity nobody may ever be sure. But the stark conclusion of all of these three books is that a rapprochement has become much less likely since the election in 2005 of Iran's egregious Mahmoud Ahmadinejad signalled the ascendancy of an Iranian group of “neoconservatives” far more ideological even than their American namesakes.

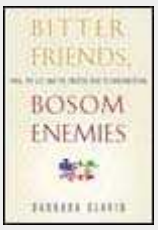
Although the workings of Iran's quasi-democracy are notoriously opaque, Anoushiravan Ehteshami and Mahjoob Zweiri do a clear job of charting the rise of these neocons. They see the explanation of Mr Ahmadinejad's victory not only in his appealing message of economic populism but also in the active connivance of an increasingly militarised state bureaucracy that feared for the survival of the Islamic revolution under the political reformists whose electoral victory of 1997 had inspired so much hope in the West.

With the reformists pushed to the margins, say the authors, real political competition inside Iran no longer takes place between reformists and conservatives but only inside the conservative camp, between the neocons and an old guard of more cautious conservatives. Their chief battleground is Iran's underperforming economy, but thanks in part to Mr Ahmadinejad's rising tide of threats against Israel, domestic politics are also moulded by Iran's relations with the outside world, and especially with America.

Trita Parsi's book offers an interesting take on that relationship. He suggests that events in the Middle East are determined largely by the machinations of three parties: America, Iran and Israel. Israel, he argues, is a diligent and effective shaper of American attitudes to Iran. For the present, Israel's policymakers are less afraid of a putative Iranian nuclear bomb than they are of a rapprochement between Iran and America, which would undermine Israel's own position as America's chief strategic partner in the region. This provocative thesis may overstate Israel's heft in Washington and understate its fear of Iran's nuclear ambitions. But it is hard to grumble with Mr Parsi's conclusion that detente between America and Iran, of the sort that might have come about in 2003, would in fact make both Israel and the Middle East as a whole very much safer.

Bitter Friends, Bosom Enemies: Iran, the U.S. and the Twisted Path to Confrontation.

Bitter Friends, Bosom Enemies: Iran, the U.S. and the Twisted Path to Confrontation
By Barbara Slavin



St Martin's Press; 272 pages; $24.95

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Iran and the Rise of its Neoconservatives: The Politics of Tehran's Silent Revolution
By Anoushiravan Ehteshami and Mahjoob Zweiri

I.B. Tauris; 224 pages; $45 and £20

Buy it at
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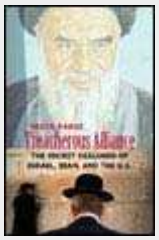
Treacherous Alliance: The Secret Dealings of Israel, Iran, and the United States
By Trita Parsi

By Barbara Slavin.
St Martin's Press; 272 pages; $24.95



Yale University Press; 361 pages; $28 and £18.99

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Eve Arnold

She came, she saw, she conquered

Oct 25th 2007
From The Economist print edition

Eve Arnold's photographs of China, taken in 1979, are on show in London

AGED 95 this year, Eve Arnold is the *grande dame* of post-war reportage photography. The first female member of Magnum, a co-operative founded in 1947 by four photographers—Robert Capa, Henri Cartier-Bresson, George Rodger and David Seymour—Ms Arnold's strength lies in her gift for visual story-telling. Her images, whether of McCarthyism, apartheid in South Africa, centenarians in Georgia or the women of Afghanistan, are intimate but never intrusive. A new exhibition in London (open from October 30th until January 12th at Asia House) has some 40 colour photographs that Ms Arnold took on two three-month trips to China in 1979, after a 15-year struggle to get a visa.

Magnum

A Mongolian militiawoman training her horse is captured by Ms Arnold

Ms Arnold's portrait of the country, supervised as she was by tourist-bureau officials, is respectful rather than penetrating. Yet the tranquil images—of a Mongolian herdsman silhouetted against the steppes, an ancient woman peering from a dark doorway, a rosy-cheeked accountant flicking the beads on her abacus, a girl stretching noodles like a skein of wool—all reveal a rapport with her subjects and a humanity that characterises both Ms Arnold's work and the Magnum ethos.

She came to photography with little training. Born in Philadelphia to Russian parents, she worked for five years as a supervisor at a mass photo processing plant in New York. It was only when a boyfriend gave her a $40 Rolleicord that Ms Arnold, then 38, saw her future.

Armed only with a six-week photographic course at New York's New School for Social Research, Ms Arnold set off. Her first idea was to photograph fashion in Harlem, spending months in church halls, bars and restaurants where black models showed off their homemade gowns. Her fresh, original snapshots made the cover plus eight pages in Britain's *Picture Post*. This helped to earn her a place as a stringer in Magnum's New York office in 1952, under the aegis of Capa who, she says, taught her to take risks.

Rejecting the street-style photography favoured by many of her Magnum colleagues, Ms Arnold has always focused on specific projects. For instance, in 1960 she was commissioned by *Life* to follow Malcolm X, the leader of the Black Muslims, for a year. A highlight of this black-and-white series shows a jubilant Malcolm X in command of his audience as he collects fistfuls of dollars at a rally in Washington, DC. The doughty Ms Arnold would return from such evenings, her wool sweater punctured with cigarette burns inflicted by hostile onlookers.

“If you are careful with people, they will offer you part of themselves. That is the big secret,” Ms Arnold

once said in a BBC radio interview. She shows this knack in her sensitive portrayals of Marilyn Monroe and an ageing Joan Crawford. In one of her best-known snapshots, taken on the set of “The Misfits”, Ms Arnold catches Monroe outside her trailer, in an awkward pose, clutching her head as she tries to memorise her lines, gently revealing the star's fragile state as well as her charm.

Two years later, in 1962, Ms Arnold moved to London where she began a long collaboration with the *Sunday Times.* Her first jobs, however, were with *Queen*: a photo-story on people advertising in the personal columns of the *Times*; Lord Bath entreating tourists to visit his lions at Longleat; a vicar appealing for £20,000 to put a new roof on his 15th-century church; three 20-year-old girls in search of a fourth to share their Knightsbridge flat. A perfectly composed image of one of the girls sitting in a cramped bath, complete with damp nylons and underpants on a line above her head, evokes Muriel Spark's novel, “The Girls of Slender Means”.

Ms Arnold put down her camera a decade ago after almost 50 years of photographing the lives of ordinary and extraordinary people the world over. Though not as powerful as some of her earlier work, her images of China, shown for the first time in Britain, offer viewers a tantalising glimpse of a vanishing way of life.

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Lucky Dube

Oct 25th 2007
From The Economist print edition

Lucky Dube, singer against apartheid, died on October 18th, aged 43

Corbis

Get article background

LIKE the birds or the beasts, musicians can sometimes be seers of tumultuous change. Lucky Dube, the best-loved and biggest-selling reggae star in South Africa, looked much like a prophet, with thick dreadlocks falling to his chest and a craggy, bearded face. His singing, too, as he leapt around the stage, was high, light and oracular, simple words set to drums, bass and two keyboards, which nevertheless detected fault-lines the authorities often could not see.

This made him dangerous—though the danger was hidden in the lilting rhythms and Mr Dube's dazzling smile. In the 1990s he performed once, because of a booking mix-up, in a military camp run by the South African Defence Force, and enjoyed watching the white soldiers dance while he sang, catchily and sunnily, “I am a prisoner in my own country”, and hummed Zulu insults at them.

He was already a thorn under the hide of the apartheid regime, singing things that were forbidden. He had started as a *mbaqanga* singer, making traditional Zulu “tourist music”, as he called it, and selling plenty of records. But from his teenage years he was in thrall to the music of Bob Marley and the chief guitarist of the Wailers, Peter Tosh, envying the drive and edge of Jamaican reggae. At his own concerts he would dive off into that music, with its undertow of social and political subversion couched in blatant English, and find that the crowd loved it.

In 1984 he dared to make a mini-album, “Rastas Never Die”. Though he had drifted into Rastafarianism out of schoolboy curiosity, believing only parts of it and smoking no *ganja*, the South African Broadcasting Corporation (SABC) saw the album as a challenge, and banned it from the airwaves. It sold a mere 4,000 copies. But he made another (“Think about the Children”, 1985), then another (“Slave”, 1987), all the time notching up more sales and ratcheting up the menace in the music.

“Slave” was ostensibly about alcoholism, which had broken up his own family before he was born. But it included the phrase “I'm just a slave, a legal slave”, which was not to do with drinking. To make the message clearer, Mr Dube renamed his backing band “The Slaves”. The record, though unplayed by the SABC, went to triple gold in three months.

The next year Mr Dube got bolder still. At a recording session he sang gently, on to the tape,

Too many people
Hate apartheid
Why do you like it?

His recording engineer stopped the tape, telling him he couldn't say that. But Mr Dube not only said it; he also persuaded the SABC to air it, the first anti-apartheid song to be played on a white station. The album, “Together as One”, sold 100,000 copies in its first five days, becoming the soundtrack of the anti-apartheid movement. In that week, too—as if Mr Dube had sensed the first ripples of the coming wave of change—eight of South Africa's long-term political prisoners were suddenly released from jail.

Down Highway 54

None of this seemed to be in Mr Dube's future when he was born, the sickly first son of a single mother on a run-down farm in East Transvaal. He began to work, as a child, trimming gardens in white suburbs. His first drums were “borrowed” from a school cupboard, his first guitar bought with the proceeds of a little play he had written. He might have sung Zulu township jive all his life, if he had not felt compelled to give “a message” to the world for which reggae was his ideal language.

The message was peace, unity, love and respect. It was much bound up with the clean-living Rastafarianism he had plucked out of the encyclopedia, but it was also drawn from his own South African experience. His songs, he said, were about life, not politics. Nor was his music just a borrowing from Jamaica: it was rooted in Africa, especially in the ancient drums that were used to communicate hope, fear or joy between one village and another.

With the end of apartheid in 1994 Mr Dube became a world star, signed by Motown. But there was still plenty to sing against at home. He took on drugs (“You go sniffling them glue/No good for you”); promiscuity and AIDS (“Don't you think it's time/to be a little more responsible”) and racial quotas (“We are tired of people who/think that affirmative action is the way out/and is another way of putting puppets/where they don't belong.”)

He also sang against South Africa's appalling crime wave, apparently unstoppable by bodyguards, police or high walls.

Do you ever worry
About your house being broke into
Do you ever worry
About your car being taken away from you
In broad daylight
Down Highway 54

It was not down Highway 54, but in Rosettenville, a suburb of Johannesburg; and it was not in broad daylight, but at 8.20 at night, that Lucky Dube's vehicle was carjacked by five men. He was shot to death in front of two of his seven children. But for his legions of fans throughout Africa and beyond it, mourning the senseless loss of a musician they also considered a liberator, his prophecy had come close enough.

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Overview

Oct 25th 2007
From The Economist print edition

America's housing market remains depressed. Sales of existing homes fell by 8% in September, following a 4.7% fall in August, according to the National Association of Realtors. The stock of unsold homes rose to 10.5 months of sales. The median price of existing homes sold was 4.2% lower than the comparable price a year earlier.

A composite measure of **euro area** activity, based on surveys of purchasing managers in manufacturing and services, edged down from 54.7 to 54.5 in October, the lowest reading for two years. The euro area's current-account surplus was stable at €3.8 billion ($5.2 billion) in August.

Britain's GDP rose by 0.8% in the second quarter and by 3.3% from a year earlier, according to a preliminary estimate. The output of financial and business services rose by a robust 1.7% in the quarter, despite the turmoil in credit markets.

Consumer prices in **Canada** rose by 0.2% in September leaving them 2.5% higher than a year earlier. The core price index, which excludes indirect taxes as well as items with the most volatile prices such as fresh food, fuel, mortgage interest and tobacco, rose by 2% in the year to September, in line with the Bank of Canada's inflation target.

Australia's consumer prices rose by 0.7% in the third quarter and by 1.9% from a year earlier. On the central bank's preferred weighted-median measure, which filters out the biggest price gains and losses, prices rose by a worrying 3.1% from a year earlier.

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Output, prices and jobs

Oct 25th 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+1.9 Q2	+3.8	+2.0	+2.2	+1.9 Sep	+2.8 Sep	+2.1	+2.8	4.7 Sep
Japan	+1.6 Q2	−1.2	+2.0	+1.9	+4.3 Aug	−0.2 Aug	+0.9	nil	3.8 Aug
China	+11.5 Q3	na	+11.5	+10.0	+17.5 Aug	+6.2 Sep	+1.5	+4.5	9.5 2006
Britain	+3.3 Q3	+3.2	+2.9	+2.1	+0.7 Aug	+1.8 Sep**	+2.4	+2.3	5.4 Jul††
Canada	+2.5 Q2	+3.6	+2.5	+2.5	−0.5 Jul	+2.5 Sep	+0.7	+2.2	5.9 Sep
Euro area	+2.5 Q2	+1.3	+2.6	+2.1	+4.3 Aug	+2.1 Sep	+1.7	+2.0	6.9 Aug
Austria	+3.5 Q2	+3.5	+3.2	+2.6	+7.4 Aug	+2.1 Sep	+1.4	+1.8	4.2 Sep
Belgium	+2.9 Q2	+2.5	+2.6	+2.1	+4.1 Aug	+1.5 Sep	+1.2	+1.7	11.4 Sep‡‡
France	+1.3 Q2	+1.2	+1.8	+2.0	+2.6 Aug	+1.5 Sep	+1.2	+1.4	8.0 Jul
Germany	+2.5 Q2	+1.0	+2.7	+2.2	+5.2 Aug	+2.5 Sep	+1.0	+2.0	8.8 Sep
Greece	+4.1 Q2	na	+3.8	+3.2	−0.4 Aug	+2.9 Sep	+2.9	+2.6	8.4 Jun
Italy	+1.8 Q2	+0.5	+1.8	+1.5	+3.0 Aug	+1.7 Sep	+2.1	+1.9	6.0 Q2
Netherlands	+2.6 Q2	+1.2	+2.5	+2.2	+2.2 Aug	+1.3 Sep	+1.3	+1.6	4.4 Sep††
Spain	+4.0 Q2	+3.8	+3.7	+2.7	+0.6 Aug	+2.7 Sep	+2.9	+2.7	8.0 Aug
Czech Republic	+6.0 Q2	+5.7	+5.6	+3.0	+5.5 Aug	+2.8 Sep	+2.7	+2.6	6.2 Sep
Denmark	+0.6 Q2	−1.6	+1.7	+1.8	−1.4 Aug	+1.2 Sep	+1.5	+1.7	3.3 Aug
Hungary	+1.2 Q2	+0.2	+2.1	+3.0	+12.2 Aug	+6.4 Sep	+5.9	+7.8	7.2 Sep††
Norway	+3.9 Q2	+3.5	+3.1	+2.6	−0.6 Aug	−0.3 Sep	+2.6	+0.8	2.5 Aug††
Poland	+6.4 Q2	na	+6.5	+5.1	+5.2 Sep	+2.3 Sep	+1.6	+2.3	11.6 Sep‡‡
Russia	+7.8 Q2	na	+7.2	+6.4	+3.0 Sep	+9.5 Sep	+9.5	+8.3	5.7 Aug‡‡
Sweden	+3.5 Q2	+3.7	+3.4	+3.0	+2.4 Aug	+2.2 Sep	+1.5	+1.8	4.2 Sep‡‡
Switzerland	+2.8 Q2	+3.0	+2.6	+2.1	+9.8 Q2	+0.7 Sep	+0.8	+0.7	2.5 Sep‡‡
Turkey	+3.9 Q2	na	+5.2	+5.2	+6.1 Aug	+7.1 Sep	+10.6	+8.5	8.9 Q2‡‡
Australia	+4.3 Q2	+3.8	+4.1	+3.5	+4.6 Q2	+1.9 Q3	+3.9	+2.4	4.2 Sep
Hong Kong	+6.6 Q2	+7.8	+6.1	+4.7	−2.3 Q2	+1.6 Sep	+2.1	+2.0	4.1 Sep††
India	+9.3 Q2	na	+8.0	+7.9	+10.7 Aug	+7.3 Aug	+6.3	+5.9	7.6 2006
Indonesia	+6.3 Q2	na	+6.3	+6.4	+4.3 Aug	+7.0 Sep	+14.5	+6.1	9.8 Feb
Malaysia	+5.7 Q2	na	+6.0	+5.8	+0.9 Aug	+1.8 Sep	+3.3	+2.1	3.4 Q2
Pakistan	+7.0 2007§§	na	+6.4	+5.9	+9.3 Aug	+8.4 Sep	+8.7	+6.7	6.2 2006††
Singapore	+9.4 Q3	+6.4	+7.0	+5.1	+13.8 Aug	+2.7 Sep	+0.4	+1.2	2.4 Q2
South Korea	+5.2 Q3	+1.4	+5.0	+4.7	+11.2 Aug	+2.3 Sep	+2.5	+2.5	3.2 Sep
Taiwan	+5.1 Q2	na	+4.3	+4.6	+8.1 Sep	+3.1 Sep	−1.2	+1.0	3.9 Aug
Thailand	+4.4 Q2	+5.2	+4.5	+4.8	+10.2 Aug	+2.1 Sep	+2.7	+2.0	1.2 Jul
Argentina	+8.7 Q2	+8.8	+7.7	+5.7	+0.1 Aug	+8.6 Sep	+10.4	+8.6	8.5 Q2‡‡
Brazil	+5.4 Q2	+3.2	+4.7	+4.5	+6.5 Aug	+4.1 Sep	+3.7	+3.7	9.5 Aug‡‡
Chile	+6.1 Q2	+6.5	+5.8	+5.2	+4.0 Aug	+5.8 Sep	+2.8	+3.9	7.6 Aug††††
Colombia	+6.9 Q2	+4.4	+6.7	+5.6	+7.7 Aug	+5.0 Sep	+4.6	+5.5	10.6 Aug‡‡
Mexico	+2.8 Q2	+5.3	+2.8	+3.1	+2.6 Aug	+3.8 Sep	+4.1	+4.0	3.9 Sep‡‡
Venezuela	+8.9 Q2	na	+6.5	+4.9	+14.1 Jul	+15.3 Sep	+15.3	+18.1	8.4 Q2‡‡
Egypt	+7.4 Q1	na	+7.0	+7.3	+10.5 2006	+9.3 Sep	+9.5	+8.4	9.0 Q1‡‡
Israel	+4.4 Q2	+6.1	+5.0	+4.5	+2.3 Aug	+1.4 Sep	+1.3	+0.5	7.6 Q2
Saudi Arabia	+4.3 2006§	na	+4.8	+5.6	na	+4.4 Aug	+1.6	+3.4	na
South Africa	+5.0 Q2	+4.5	+4.8	+5.1	+5.1 Aug	+7.2 Sep	+5.3	+6.0	25.5 Mar‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+7.6 Q2	na	+7.9	+5.8	+4.4 Aug	+7.2 Sep	+3.8	+6.0	5.5 Aug
Finland	+4.7 Q2	+3.8	+4.6	+2.5	−0.3 Aug	+2.6 Sep	+1.5	+2.7	6.9 Aug
Iceland	+2.5 Q2	+9.1	+1.2	+1.6	+7.6 2006	+4.5 Oct	+7.2	+4.8	0.9 Aug‡‡
Ireland	+5.4 Q2	−5.5	+4.7	+3.5	+10.0 Aug	+4.6 Sep	+4.0	+4.7	4.7 Sep
Latvia	+11.1 Q2	na	+10.0	+7.5	+3.0 Aug	+11.4 Sep	+6.0	+9.6	5.5 Aug
Lithuania	+8.0 Q2	+8.2	+7.8	+6.9	na	+7.1 Sep	+3.2	+5.0	2.8 Sep
Luxembourg	+5.3 Q2	+5.3	+5.0	+3.4	−1.0 Jul	+2.1 Sep	+2.4	+2.1	4.2 Aug‡‡
New Zealand	+3.8 Q2	+3.4	+3.0	+3.0	+0.5 Q2	+1.8 Q3	+3.5	+2.4	3.6 Q2
Peru	+6.5 Aug	na	+7.3	+6.3	+7.0 Aug	+2.8 Sep	+2.0	+1.5	8.0 Aug‡‡
Philippines	+7.5 Q2	+7.1	+6.8	+5.5	−4.7 Aug	+2.7 Sep	+5.7	+2.8	7.8 Q3‡‡
Portugal	+1.6 Q2	+1.9	+1.8	+2.1	+1.0 Aug	+2.1 Sep	+3.0	+2.4	7.9 Q2‡‡
Slovakia	+9.4 Q2	na	+8.0	+6.0	+5.7 Aug	+2.8 Sep	+4.6	+2.7	8.2 Aug
Slovenia	+5.9 Q2	na	+5.6	+4.6	+10.1 Aug	+3.5 Sep	+2.5	+3.0	7.4 Aug‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 3.9% in Sep. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

Oct 25th 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	Oct 16th	Oct 23rd*	% change on one month	% change on one year
Dollar index				
All items	215.5	216.3	–0.1	+17.7
Food	193.6	194.2	–1.8	+30.7
Industrials				
All	243.9	244.8	+1.6	+6.8
Nfa†	165.8	170.8	+2.5	+23.2
Metals	286.5	285.2	+1.4	+2.4
Sterling index				
All items	160.8	160.1	–1.7	+7.6
Euro index				
All items	140.8	140.4	–0.9	+3.7
Gold				
$ per oz	758.60	757.00	+3.9	+30.3
West Texas Intermediate				
$ per barrel	87.47	85.25	+7.2	+43.7

*Provisional †Non-food agriculturals.

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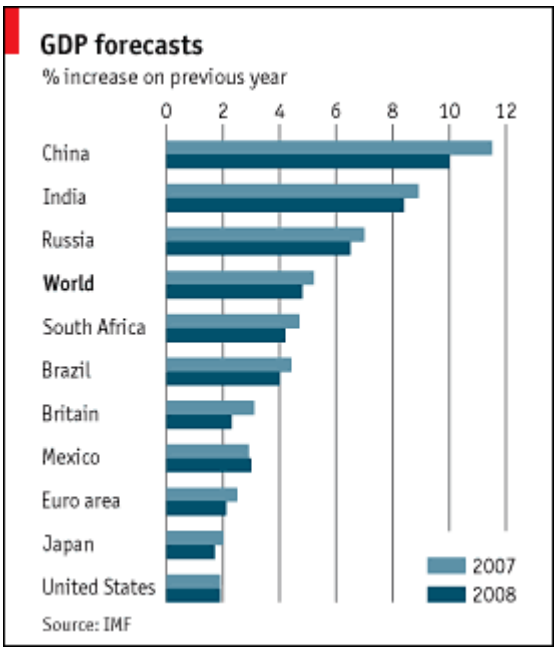
GDP forecasts

Oct 25th 2007
From The Economist print edition

Global GDP is set to slow only slightly next year, according to the IMF's latest World Economic Outlook. Greater pessimism about the prospects for growth in America prompted the fund to revise down its forecast for global growth for next year from 5.2% to 4.8%. America is now expected to grow at 1.9% both this year and next—the 2008 forecast slashed from 2.8%. Forecasts for the euro area and Japan were revised down less drastically. Emerging markets are likely to continue expanding rapidly, led by China and India, though growth is set to ease from 8.1% this year to 7.4% in 2008. Measured at market exchange rates and not purchasing-power parity, the global growth forecast for next year is a less racy 3.3%.



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Trade, exchange rates, budget balances and interest rates

Oct 25th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ Oct 24th	Currency units, per $ year ago	Budget balance % of GDP 2007†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−810.7 Aug	−793.2 Q2	−5.6	–	–	−1.5	4.67	4.33
Japan	+98.1 Aug	+197.5 Aug	+4.6	114	119	−2.6	0.73	1.57
China	+253.4 Sep	+249.9 2006	+10.7	7.49	7.90	0.2	3.92	4.85
Britain	−160.4 Aug	−86.6 Q2	−3.2	0.49	0.53	−3.0	6.23	4.88
Canada	+48.5 Aug	+21.9 Q2	+1.8	0.97	1.13	0.6	3.89	4.27
Euro area	+42.1 Aug	+30.4 Aug	+0.2	0.70	0.79	−0.7	4.63	4.14
Austria	+1.2 Jul	+12.3 Q2	+2.9	0.70	0.79	−0.5	4.63	4.22
Belgium	+17.6 Aug	+13.0 Jun	+2.2	0.70	0.79	−0.1	4.69	4.26
France	−40.8 Aug	−25.8 Aug	−1.2	0.70	0.79	−2.4	4.63	4.24
Germany	+253.1 Aug	+196.9 Aug	+5.4	0.70	0.79	−0.4	4.63	4.13
Greece	−50.5 Jul	−40.9 Aug	−10.5	0.70	0.79	−2.4	4.63	4.43
Italy	−15.0 Aug	−51.4 Aug	−2.4	0.70	0.79	−2.5	4.63	4.40
Netherlands	+49.9 Aug	+53.5 Q2	+7.9	0.70	0.79	−0.6	4.63	4.22
Spain	−124.1 Aug	−125.1 Jul	−9.0	0.70	0.79	1.7	4.63	4.23
Czech Republic	+3.1 Aug	−5.9 Aug	−3.8	19.1	22.5	−4.0	3.56	4.41
Denmark	+4.2 Aug	+4.3 Aug	+1.5	5.24	5.92	3.8	4.80	4.22
Hungary	−1.7 Aug	−6.8 Q2	−5.2	177	209	−6.0	7.39	6.50
Norway	+54.5 Sep	+54.6 Q2	+14.2	5.46	6.61	18.9	5.68	4.84
Poland	−10.5 Aug	−14.6 Aug	−3.3	2.57	3.09	−2.2	5.16	5.50
Russia	+121.6 Aug	+73.5 Q3	+5.5	24.9	26.9	4.0	10.00	6.30
Sweden	+18.3 Sep	+29.7 Q2	+6.9	6.49	7.32	2.8	3.78	4.18
Switzerland	+11.1 Sep	+98.4 Q2	+16.4	1.17	1.27	0.3	2.77	2.81
Turkey	−56.4 Aug	−33.2 Aug	−7.3	1.22	1.47	−2.9	17.39	7.00§
Australia	−13.0 Aug	−47.1 Q2	−5.7	1.11	1.32	1.4	6.88	6.13
Hong Kong	−20.6 Aug	+24.9 Q2	+9.8	7.75	7.78	1.9	4.89	3.83
India	−70.7 Aug	−9.7 Q2	−1.6	39.6	45.4	−3.3	7.08	8.25
Indonesia	+41.7 Aug	+11.0 Q2	+2.3	9,178	9,165	−1.7	8.12	6.36§
Malaysia	+28.7 Aug	+27.6 Q2	+13.8	3.37	3.68	−3.2	3.62	4.75§
Pakistan	−13.8 Sep	−7.1 Q2	−4.5	60.7	60.6	−4.6	9.82	8.05§
Singapore	+38.5 Sep	+41.6 Q2	+25.7	1.46	1.57	0.3	2.56	2.72
South Korea	+19.9 Sep	+8.1 Aug	+0.4	918	956	0.4	5.34	5.38
Taiwan	+14.6 Sep	+28.3 Q2	+6.3	32.6	33.3	−2.0	2.60	2.73
Thailand	+9.2 Aug	+10.9 Aug	+3.6	34.1	37.1	−1.9	3.55	4.37
Argentina	+10.5 Sep	+7.4 Q2	+3.5	3.18	3.09	1.5	13.06	na
Brazil	+43.1 Sep	+9.0 Sep	+0.7	1.80	2.15	−1.8	11.18	6.16§
Chile	+24.1 Sep	+8.3 Q2	+5.0	505	524	8.0	5.88	4.90§
Colombia	−1.6 Jul	−4.8 Q2	−3.0	2,022	2,341	−0.2	8.69	5.98§
Mexico	−1.2 Sep	−7.0 Q2	−1.1	10.8	10.8	nil	7.20	7.84
Venezuela	+23.8 Q2	+20.4 Q2	+7.2	2,147	2,881	−2.6	11.05	6.55§
Egypt	−14.1 Q1	+3.1 Q1	+2.3	5.52	5.74	−5.5	7.30	5.51§
Israel	−9.0 Aug	+7.8 Q2	+3.4	4.04	4.29	−0.9	4.17	5.20
Saudi Arabia	+146.6 2006	+98.9 2006	+23.3	3.74	3.75	18.7	5.05	na
South Africa	−9.6 Aug	−17.4 Q2	−6.3	6.66	7.61	0.5	10.75	8.33
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−4.0 Jul	−3.1 Aug	−14.7	11.0	12.4	3.1	5.18	na
Finland	+12.5 Aug	+12.6 Aug	+7.1	0.70	0.79	4.2	4.47	4.22
Iceland	−1.9 Sep	−3.7 Q2	−16.7	61.3	68.2	3.7	13.76	na
Ireland	+36.2 Jul	−10.5 Q2	−4.9	0.70	0.79	1.1	4.63	4.20
Latvia	−7.1 Aug	−6.3 Aug	−22.2	0.49	0.55	0.4	11.52	na
Lithuania	−6.5 Aug	−4.4 Aug	−14.5	2.43	2.74	−0.5	6.04	na
Luxembourg	−5.9 Jul	+4.6 Q2	na	0.70	0.79	0.3	4.63	na
New Zealand	−4.5 Aug	−9.2 Q2	−8.2	1.33	1.51	4.8	7.15	6.33
Peru	+8.6 Aug	+2.8 Q2	+1.9	3.02	3.23	0.5	5.00	na
Philippines	−4.1 Aug	+6.4 Jun	+6.4	44.3	50.0	−0.9	6.94	na
Portugal	−23.4 Jul	−18.1 Aug	−8.6	0.70	0.79	−3.2	4.63	4.34
Slovakia	−2.9 Aug	−4.2 Jun	−4.3	23.4	29.0	−2.9	4.19	4.64
Slovenia	−2.4 Aug	−1.4 Jul	−3.0	0.70	0.79	−1.2	na	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Oct 25th 2007
From The Economist print edition

Markets

	Index Oct 24th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	13,675.3	–1.6	+9.7	+9.7
United States (S&P 500)	1,515.9	–1.6	+6.9	+6.9
United States (NAScomp)	2,774.8	–0.6	+14.9	+14.9
Japan (Nikkei 225)	16,358.4	–3.5	–5.0	–0.8
Japan (Topix)	1,563.9	–2.3	–7.0	–2.8
China (SSEA)	6,134.6	–3.2	+117.9	+127.0
China (SSEB, $ terms)	370.3	–4.3	+173.2	+184.6
Britain (FTSE 100)	6,482.0	–2.9	+4.2	+9.0
Canada (S&P TSX)	14,088.5	–0.9	+9.1	+30.8
Euro area (FTSE Euro 100)	1,377.2	–1.9	+7.7	+16.2
Euro area (DJ STOXX 50)	4,357.1	–1.9	+5.8	+14.1
Austria (ATX)	4,742.3	–2.1	+6.2	+14.6
Belgium (Bel 20)	4,336.4	–3.8	–1.2	+6.6
France (CAC 40)	5,674.7	–2.5	+2.4	+10.5
Germany (DAX)*	7,829.0	–2.0	+18.7	+28.1
Greece (Athex Comp)	5,214.2	–0.2	+18.7	+28.0
Italy (S&P/MIB)	39,280.0	–2.4	–5.2	+2.3
Netherlands (AEX)	543.3	–2.0	+9.7	+18.4
Spain (Madrid SE)	1,658.0	–1.5	+6.6	+15.1
Czech Republic (PX)	1,872.6	–1.0	+17.9	+28.8
Denmark (OMXCB)	471.3	–2.5	+11.1	+19.9
Hungary (BUX)	27,360.0	–2.1	+10.1	+18.7
Norway (OSEAX)	574.3	–1.6	+14.3	+30.4
Poland (WIG)	63,436.8	–0.3	+25.8	+42.1
Russia (RTS, $ terms)	2,123.4	–1.6	+4.5	+10.5
Sweden (Aff.Gen)	365.7	–4.1	+0.1	+5.6
Switzerland (SMI)	8,851.0	–2.4	+0.7	+4.8
Turkey (ISE)	55,752.2	–3.8	+42.5	+65.9
Australia (All Ord.)	6,652.1	–0.7	+17.9	+34.9
Hong Kong (Hang Seng)	29,333.5	+0.1	+46.9	+47.4
India (BSE)	18,512.9	–1.1	+34.3	+50.1
Indonesia (JSX)	2,525.0	–4.4	+39.8	+37.0
Malaysia (KLSE)	1,359.8	–1.1	+24.0	+29.8
Pakistan (KSE)	14,261.0	–2.3	+42.0	+42.5
Singapore (STI)	3,649.1	–5.0	+22.2	+28.3
South Korea (KOSPI)	1,933.4	–2.5	+34.8	+36.5
Taiwan (TWI)	9,442.6	–1.3	+20.7	+20.8
Thailand (SET)	866.0	–2.1	+27.4	+34.9
Argentina (MERV)	2,256.6	+0.7	+7.9	+4.1
Brazil (BVSP)	62,624.0	–0.9	+40.8	+66.8
Chile (IGPA)	15,498.1	+1.4	+25.3	+32.1
Colombia (IGBC)	10,226.8	+0.6	–8.4	+1.5
Mexico (IPC)	32,048.2	–2.1	+21.2	+21.1
Venezuela (IBC)	37,184.2	nil	–28.8	+10.8
Egypt (Hermes)	80,145.3	+0.8	+30.8	+35.2
Israel (TA-100)	1,143.6	–1.2	+24.1	+29.6
Saudi Arabia (Tadawul)	8,209.2	+3.8	+3.5	+3.7
South Africa (JSE AS)	30,041.2	–3.3	+20.6	+27.6
Europe (FTSEurofirst 300)	1,549.7	–2.2	+4.5	+12.7
World, dev'd (MSCI)	1,627.9	–1.5	+9.7	+9.7
Emerging markets (MSCI)	1,265.3	–1.1	+38.6	+38.6
World, all (MSCI)	412.8	–1.5	+12.2	+12.2
World bonds (Citigroup)	713.2	+1.9	+8.3	+8.3
EMBI+ (JPMorgan)	429.1	+0.3	+5.4	+5.4
Hedge funds (HFRX)	1,345.1	–0.2	+5.4	+5.4
Volatility, US (VIX)	20.8	18.5	11.6	(levels)
CDSs, Eur (iTRAXX)†	38.1	+10.1	+63.2	+76.1
CDSs, N Am (CDX)†	65.7	+10.0	+96.3	+96.3
Carbon trading (EU ETS) €‡	22.5	–2.8	+23.4	+33.2

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank

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Tax revenue

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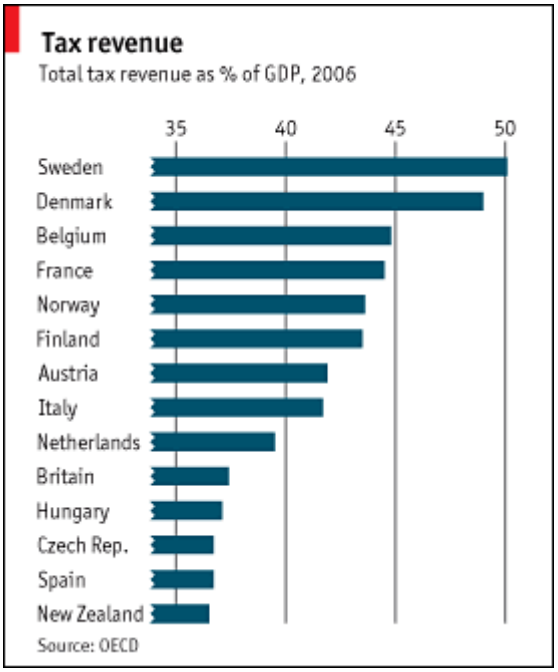
Government claims a bigger slice of national income in rich economies than a generation ago, according to the OECD. The tax burden in Europe in 2005 was above the OECD average of 36.2% of GDP, which itself had risen from 29.5% in 1975. Within the rich-country club, the tax take is highest in Scandinavian countries. In 2006 the state in Sweden and Denmark took around half of GDP in taxes and the share in Finland and Norway was well over 40%. Ireland, where the government claimed 31.7% of GDP is a comparative tax haven, partly because of a light touch on companies. America paid less than 30% of its income in taxes last year. The least-taxed OECD country was Mexico at 20.6% of its 2006 GDP.



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